

Sky plc

Annual Report 2015

Registered in England
No. 2247735



We are part of everyday life for millions of customers across Europe. We entertain and connect them by offering the best content, technology to put them in control and best-in-class service delivery.

Front cover – Fortitude Sky Atlantic All territories 1 – Sky engineer 2 – Chris Froome Team Sky 2015 Tour de France champions 3 – Frozen Sky Movies HD All territories 4 – 1992 Sky Atlantic HD Sky Deutschland and Sky Italia Sky Arts HD Sky UK 5 – Hertfordshire Mavericks vs Surrey Storm Netball Superleague Sky Sports HD Sky UK

Sky plc

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To find out more about Sky go to sky.com/corporate

For more about how we're making a wider contribution go to sky.com/biggerpicture

Chairman's statement

2015 has been a transformational year for Sky. With the acquisition of the businesses in Germany and Italy, the Company has moved beyond the boundaries of the UK and Ireland to create a world-class pay TV operation.

Nick Ferguson, CBE

Against the backdrop of a fast-moving industry we have brought together the three leaders in their respective markets positioning the enlarged group to take advantage of new opportunities at scale

We see the potential to launch new products and services that will reach customers in more ways than ever before and create enhanced value for shareholders

On behalf of the Board it gives me great pleasure to take this opportunity to welcome our colleagues from Sky Deutschland and Sky Italia to the group. We look forward to all that you can achieve together as part of a bigger team.

To recognise the expanded international scope of the Company, we have changed our name from British Sky Broadcasting simply to Sky.

Throughout, the Company has continued to deliver strong growth achieving excellent results both operationally and financially. The performance for the year shows good momentum across the group as more customers choose to join Sky and take more of our products, for use at home or on the move.

The fact that these results have been achieved at a time of such change for the Company demonstrates the strength and focus of the management team. It is also proof that the actions taken in recent years to invest in the quality of the customer experience are delivering returns.

Reflecting the Company's excellent performance, the Board has proposed a 3% increase in the dividend to 32.8 pence. This is the 11th consecutive year of growth.

As a successful and growing business, the enlarged Sky makes an important economic contribution to the countries in which it operates. It acts as a powerhouse for the creative industries

in Europe, supporting 128,000 jobs across its five territories and investing £4.9 billion in quality news, sports and entertainment content. In addition, it contributes £7.6 billion to GDP across the five countries and generates £3.4 billion in tax revenues, of which a total of £2.3 billion goes to the UK Exchequer (Oxford Economics).

Sky is also committed to using its position as Europe's leading entertainment company to make a positive impact on society. Across the enlarged group, the focus is on using the Company's strengths in TV, creativity and sport to support young people and help them to realise their full potential.

I have been privileged in the course of the year to be present at the launch of two new initiatives for Sky Academy in the UK and Ireland: the Careers Lab in West London and the new Skills Studios in Scotland. Nearly two years after launching Sky Academy, we're delighted with the progress we're making. Our colleagues in Germany and Italy also have a focus on young people and we see a real opportunity to share learning across our territories and to strengthen our engagement with young people in the next few years.

Moving onto the business of the Board, as announced last year, Andy Higginson retired from the Board in November after 10 years, the last two of which he held the role of Senior Independent Director. He was succeeded in this role by Martin Gilbert.

Furthermore, at the conclusion of this year's AGM in November, David DeVoe, Danny Rimer and Arthur Siskind will step down from the Board. Immediately following the AGM, it is intended that John Nallen, CFO of 21st Century Fox, will be appointed by the Board as a Non-Executive Director. As a result of these proposed changes, the number of Board members would reduce from 14 to 12. On behalf of the Board, I would like to offer my warmest thanks to David DeVoe, Danny Rimer and Arthur Siskind for their major contribution to the Company over many years. All three have been excellent colleagues. Arthur joined the Board in 1991, David in 1994 and Danny in 2008, and each has been a source of sound advice throughout. We will miss them all.

On behalf of the Board, I would like to thank all of our shareholders for their continued support, in particular through the completion of such a significant transaction. I would also like to take this opportunity to thank every one of my colleagues across the business for their hard work and contribution to what has been an excellent year for Sky.

Nick Ferguson, CBE

Our strategy

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

Our business model

Our strengths:

Great content

We invest to deliver the best and broadest range of content right across the portfolio of channels and services we provide to customers, ensuring we offer something for everyone in the household

Market-leading innovation

We harness new technology in order to give customers the very best viewing experience, wherever and whenever they want it

A customer focus

We are led by customers and what they want. We have an unrivalled ability to address their needs thanks to the strength of our brand, the scale of our go-to-market operation, and our expertise in service delivery

Growth opportunities

Growing pay TV penetration

We exploit the headroom for pay TV growth across our markets using the combination of satellite cable and over-the-top (OTT) services to meet customers' needs

Selling more to customers

We focus on broadening out our range of products and services in order to sell more to existing customers and address more of their needs

Scaling adjacent business

We target opportunities in adjacent sectors like advertising and international programme sales to grow new revenues

How we create value

Investing for the long term

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

Seeing the bigger picture

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

Driving efficiency

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

Investing in people

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

Group Chief Executive's statement

Sky has had an outstanding year, ending 2015 a very different business compared to the same time a year ago. We have transformed the scale of opportunity ahead while at the same time delivering strong growth as more customers across our markets join Sky and take more of our products.

Jeremy Darroch

With the successful acquisition of Sky Deutschland and Sky Italia, Sky today serves 21 million customers across five countries – Italy, Germany, Austria, Ireland and the UK – and is Europe's leading investor in content.

As well as bringing greater scale, the transaction was also about building a great organisation and positioning the business for the future. The three Sky businesses are highly complementary. They share a powerful brand and have a common ethos of embracing change to provide customers with more choice, better content and a superior TV experience.

Sky is already at the forefront of delivering services over broadcast, on demand and mobile TV platforms. However, by joining the three businesses together, we are able to share our strengths and expertise across the group. This will enable us to serve customers better and to build a bigger and stronger business over the longer term, to the benefit of all shareholders.

Expanded opportunity for growth

When we consider the long-term potential for Sky as an international business, we see six broad areas of opportunity.

First, we will exploit the substantial headroom for pay TV growth across our markets. With more than 65 million households yet to take pay TV, we will tap into new pockets of demand by segmenting the market, using the combination of our Sky-branded satellite and cable TV offering and our OTT streaming services.

Second, we will use our strengths in cross-selling to bring more products to our customers across the group. Everything we see tells us that our customers are increasingly loyal to Sky and have an appetite to take more from us.

Third, we will continue to grow our adjacent businesses. In channel distribution, we have more potential partners for our content as the market opens up. We'll also have an expanded opportunity to grow our programme sales as we scale our content business.

Fourth, we will raise our ambitions in content even further. By bringing the three Skys together, we have the potential to operate at greater scale. This is about extending our traditional strengths in areas like sports and movies, commissioning more of our own entertainment programming and being the best partner for content owners around the world.

Fifth, we will accelerate innovation to deliver an even better experience for customers. By combining our product development activity across the group, we'll be able to bring products to market faster, at greater scale and at reduced cost.

Sixth, we will build on the strength of our go-to-market operation and expertise in service delivery to create an organisation that is best placed to meet the needs of customers.

Nine months after closing the transaction, the teams in each of the three businesses are working together well and the integration process is on track. Having identified multiple ways in which the businesses can best share expertise, we have started work on a clear set of priority workstreams that will ensure we make the most of the opportunities ahead.

Group Chief Executive's statement (continued)

Excellent performance across the group

At the same time as implementing the transaction we delivered an excellent operational and financial performance as robust demand from customers drove strong trading across all of our markets

We closed the financial year with revenues up 5% to £11.3 billion¹ and operating profit up 18% to £1.4 billion. This was an outstanding result in a year of such change for the business.

The strength of our performance was fuelled by the addition of almost one million new customers over the year. This was 45% more than the prior year and took our customer base past the 21-million mark. At the same time we added 4.6 million new paid-for products, reflecting strong levels of demand across our broad product offering.

2015 also saw us achieve significantly increased customer loyalty across the group. We reduced churn to below 10% in all our markets as customers responded positively to the investments we have made in the viewing experience, in areas such as the connected box platform and our own original drama.

Standout performance in UK and Ireland

At the heart of the group results was an outstanding performance in the UK and Ireland, demonstrating the success of the approach we have taken to segmenting the market with the complementary Sky and NOW TV brands.

Strong customer demand resulted in the highest organic customer growth for 11 years of 506,000 to take us past the 12-million milestone. At the same time, we grew paid-for products by 3.3 million thanks to accelerated growth across TV and broadband.

We achieved churn of 9.8% on a 12-month rolling basis, an 11-year low, as growing penetration and usage of connected TV services increased customer loyalty and overall satisfaction with Sky. We closed the year with more than seven million TV customers connected, an increase of more than one million over the year.

Strong growth in Germany and Austria

Sky in Germany and Austria also achieved an excellent year of growth. We added 467,000 net new customers over the 12 months, the highest-ever annual customer growth, to take the base past four million. Paid-for product growth of almost one million represented an improvement of more than 50% on the prior year thanks to strong growth in HD.

Churn of 8.6% on a 12-month rolling basis was a record low for a full year as we continued to benefit from the take-up of two-year contracts.

Italy stabilised

In Italy, we held the customer base stable for the first time in three years, ending the 12-month period broadly flat year on year with 4.7 million customers. Paid-for product growth was 387,000 while churn hit a low of 9.6% on 12-month rolling basis as customers showed growing loyalty to the business. This was a good result in what remains a challenging market.

¹ We have presented the results on an adjusted like-for-like basis for the full 12-month period to 30 June 2015 down to operating profit. Comparative figures are translated at a constant currency of €1.31/£1.

1 - England vs New Zealand Investec Test Match at Lord's Sky Sports Sky UK
2 - Fortitude Sky Atlantic All territories 3 - Portrait Artist of the Year Sky Arts Sky UK
4 - NOW TV remote and box 5 - Italian Grand Prix Mugello Sky Sport MotoGP HD Sky Italia

Building on our strengths

Sky's success rests on the unique combination of strengths that we have developed in three core areas: the best and broadest range of content, market-leading innovation that enhances the viewing experience, and our focus on the customer through our unrivalled go-to-market capability, expertise in service delivery and the strength of our brand.

We made significant progress in each of these areas in 2015.

Content

We strengthened the range and quality of our offering on screen across all our territories in the past 12 months, advancing our ambition to create a powerhouse for content in Europe.

In entertainment, we took another big step forward as we grew our capability in original production. While each of our businesses is at a different stage of development in this area, what's become clear as we've started to work together is our shared vision and our common sense of ambition.

Crime drama *Fortitude* and Italian political drama *1992* became the first of our home-grown dramas to launch simultaneously across all five territories in January and March respectively.

Reaching an audience of 3.7 million, *Fortitude* was Sky Atlantic's most successful original drama to date in the UK. It also became the most successful show for Sky Vision, our distribution business, with sales to more than 100 territories internationally. Meanwhile, *1992* premiered with the biggest-ever audience for an original scripted series in Italy.

Their success underlines the potential that we have to operate at a greater scale with a number of exciting drama projects in the pipeline as part of more than 130 hours of original drama now in production across the group.

In sport, we completed a series of important rights deals to put Sky in a strong position for the coming year. In the UK and Ireland, we achieved a successful outcome to the Premier League's tender process, reinforcing Sky Sports' position as the number one choice for sports fans with the rights to 126 live Premier League matches every season from 2016/17 to 2018/19. As a result, Sky Sports will bring customers three times as many live matches as any other broadcaster, including the best match picks and the most-watched slots in the schedule. Meanwhile, in Italy, we secured the live and exclusive rights to all 472 matches in Serie B for the next three seasons.

Innovation

Sky's strength in innovation enables us to get the greatest value from our investment in content, meeting customers' growing desire for the flexibility to consume content on their own terms, both in and out of the home. It also allows us to distribute our content more widely, tapping into new pockets of demand using OTT technology and creating new revenue opportunities in areas like transactional services.

Group Chief Executive's statement

(continued)

Across our markets, we have continued to invest in the quality of the customer experience to make it easier for customers to access and consume our content. Sky now has almost nine million customers across our markets who have chosen to connect their boxes to the internet to open up a whole range of on demand and catch-up services.

Additionally, Sky has also extended its lead as Europe's biggest mobile TV provider. Close to 10 million homes across the group are enabled to watch their favourite programmes on the move with Sky Go. We built on our leadership in mobile TV in the year with the agreement of a significant new partnership with Telefónica in the UK. This will enable us to add a range of mobile voice and data services to our customer offering in 2016 to exploit the opportunities for growth that we see in the fast-changing mobile sector.

The growing penetration of connected devices is opening up brand new sources of revenue. One area where we made real strides in 2015 is Sky Store in the UK and Ireland where revenues increased 77% with a growing contribution from our Buy & Keep service launched a year ago. The service regularly ranks number one or two among digital retailers for new releases, for example delivering record digital sales for Universal on its best-selling title *Fifty Shades of Grey*. We are excited about the opportunity to expand in this sector.

2015 also saw us make significant progress in the expansion of our OTT streaming services. We see a big opportunity to use OTT video to drive pay TV penetration in a way that is complementary to our core satellite and cable businesses. In the UK, our popular NOW TV service continued to build momentum as our rebranding helped drive a near trebling in sports pass sales in the year.

Building on this success, we've also launched Sky Online services in both Germany and Italy in the past 18 months giving us streaming products in all our markets. Targeted at people who like our content but want to consume it in a different way, these services are just getting going. We see a lot of potential to use them as a means to unlock new headroom for customer growth across Europe.

Customers

We know that our strength in content and innovation only matters because we know how to bring them together in a way that works best for customers. We have built Sky as the leading brand in our sector with a proven ability to stretch into new parts of the market to deliver the products and services that best address customers' needs.

In the UK, more than one-third of households believe Sky is the brand best placed to bring together their entertainment and communications needs – far ahead of any other company. And in Italy Sky is rated as the second-strongest brand in media and technology, second only to Apple.

The strength of our brand combined with the scale and sophistication of our go-to-market operation enables Sky to provide the products that best address customers' needs. It also ensures we support them with best-in-class customer service.

We have continued to raise the bar in the quality of our service in the past 12 months.

In the UK and Ireland we have been rolling out our Digital First programme with the aim of putting our digital channels at the front line of customer service delivery. Our ambition is very clear – for the majority of customer interactions to be conducted via our digital channels. We believe the potential is significant: we will grow customer satisfaction to even higher levels while further reducing operating costs as a percentage of sales. Our intention is to roll out the programme across Germany and Italy in time.

How we do business

Of course, the success of Sky is based not simply on the results we deliver over one year but on our sustained performance over time. We know that to build a business that is durable for the long term it is not just what we achieve as a business but how we go about it that matters. This is at the heart of our 'Believe in better' ethos, our commitment to constant improvement in all that we do.

1 – Paddington, Buy & Keep, Sky Store, Sky UK 1 – Journalist, Sky Sport, Sky Italia
3 – Quilan, Isadore, Sky Academy, Sports Scholar, Sky UK

A responsible business

Our ability to provide the best products and services for customers is underpinned by a commitment to act responsibly. The millions of customers across Europe that choose Sky for their home entertainment and communications have high expectations of us and it is our job to maintain their trust in the decisions we take day to day. This means, for example, ensuring we work hard to keep the information customers share with us safe and secure, developing easy to use, energy-efficient products for our customers, and strengthening our work with suppliers on our environmental and social standards, including human rights.

For more about our commitments, pages 71-73

Creating a wider impact

As a successful company, we also have the opportunity to use our position as Europe's leading entertainment company to make a positive impact on society. It's something we know our customers value and an important part of ensuring our business is successful for the long term.

Across Sky, we've chosen to focus on supporting young people. We believe passionately that businesses need to step up and work alongside schools and colleges to help prepare young people for a successful future. Given the power of our brand, it's an area in which we believe we can make a real difference.

Sky Academy in the UK and Ireland uses the power of TV, sport and creativity to help young people build skills and experience with the aim of reaching one million young people by 2020. In the autumn, we opened the newest Sky Academy initiative, Sky Academy Careers Lab, based on the Sky campus in west London. This gives 16-19 year olds the chance to take part in practical workplace challenges in order to learn about careers in media, business and technology. Since launch in November 2013, 231,000 young people have participated in Sky Academy initiatives.

In Italy, our Sky TG24 for Schools initiative allows secondary school students to see behind the scenes and develop a critical analysis of the news by making their own TV news programme. In the past 12 months, we expanded it from 20 classes in Rome to more than 310 classes nationwide.

Meanwhile, in Germany we helped over 5,000 young people during the year through our Sky Foundation. This partners charity projects to encourage young people, particularly those who are disabled or are from disadvantaged backgrounds, to pursue more active and healthy lifestyles.

People

Of course, central to any high-performing organisation are hard working people who share a common set of values and a clear sense of purpose. As we bring together three businesses to create a new Sky, capable of succeeding across five territories, we start from a position of strength. Right across the group, we are fortunate to have a talented and diverse workforce, committed to pulling together to create a better business for all. Our success comes from their willingness to embrace change and to work together to achieve continual improvement. I would like to thank each and every one of them for the contribution they have made to our success in the past 12 months.

For more about diversity and our people, pages 71-72

Outlook

Nine months after completing the transaction, we feel good about the prospects for the new Sky. We are delivering strong levels of growth across the group as customers respond positively to our products and services. Our financial performance is strong and overall, we are well positioned for the substantial growth opportunity ahead, to the benefit of our customers, our people and our shareholders.

Jeremy Darroch

Business overview

1 – Chelsea FC 2015 Premier League Champions Sky Sports HD Sky UK
 Fox Sports HD Sky Italia 2 – Italia's Got Talent Sky Uno HD Sky Italia
 3 – Game of Thrones Sky Atlantic All territories 4 – 50 Ways to Kill Your
 Mammy Sky1 HD Sky UK 5 – Monkey Life Pick TV Sky UK 6 – Newsroom
 Sky TG24 HD Sky Italia 7 – Stella Sky1 HD Sky UK 8 – Sky Sport News HD
 anchor Birgit Nössing for Sky Foundation Sky Deutschland

Our marketplace

Expanded opportunity for growth

Sky has an addressable market of 98 million households across

5 countries

Germany Austria, Italy UK and Ireland

There is a significant opportunity for upsell of additional products with

21 million

customers each taking an average of

2.6 products

per household

We have a significant headroom for growth with

65 million

households in our markets yet to take pay TV

We are exploiting adjacent market opportunities that are opening up as we extend our leadership in content and innovation. For example, the UK transactional home video market is worth

£1.5 billion

(BVA)



Governance

Financial statements

Shareholder information

For a reconciliation of statutory to adjusted measures page 144

Our performance

(continued)

Operational key performance indicators

Retail customers		Total products
<p>Description A customer is defined as a subscriber to one of our TV packages or standalone home communications services</p> <p>Analysis A key element of our strategy is to continue adding new customers. In 2015 we added a total of 10 million new customers, 45% more than the prior year with record growth in Germany and the highest organic growth in the UK for 11 years</p>		<p>Description Total products is defined as the total of all paid-for subscription products taken by our customers across the Sky group. In the UK and Ireland this includes TV, HD Multiscreen, Sky Go Extra, Broadband, Telephony and Line Rental. In Italy this includes TV Multivision, Sky Online and paying HD. In Germany and Austria this includes TV Second Smartcard, Premium HD and Sky Online.</p> <p>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 2015 we added 4.6 million products taking our total subscription products to almost 54 million.</p>
2015	21.0m	2015 53.8m
2014	20.0m	2014 49.2m
2013	19.4m	2013 44.5m

Churn			Description
UK & Ireland	Germany & Austria	Italy	
			<p>Churn represents the number of total customers during the year who terminated their subscriptions, net of former customers who reinstated their subscription (within 12 months of terminating their original subscription), expressed as a percentage of total average customers.</p> <p>Analysis Churn is a good measure of customer loyalty, which is a key driver of value for our business. In each market churn was under 10% which was significantly lower year on year, illustrating high customer loyalty.</p>

Seeing the bigger picture

Social reach

2015 140,100

Our full set of independently assured key performance indicators used to measure our sustainability performance can be found at sky.com/biggerpicture

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

Analysis
In the UK and Ireland we have a target to reach one million young people by 2020 through Sky Academy. In 2015 our cumulative total is 231,000*. For the first time in 2014/15 we have collected data from our young people initiatives in Germany and Italy for an overall social reach. This is made up of 127,000* for Sky Academy in the UK and Ireland, 5,200 for Sky Foundation* in Germany and 7,900 for our initiatives in Italy.

Content

Programming investment

2015 **£4,886m**

2014 **£4,662m**

2013 **£4,339m**

Description

Content investment is the amount spent every year bringing the very best content to our customers. This includes investment in Sky channels, such as Sky 1 in the UK and Ireland and Sky Uno in Italy. It also includes investment in partner channels, such as the Discovery Channel or National Geographic. The amount spent on content will include the cost of acquiring the rights to programmes made by others, or commissioning original programmes ourselves.

Analysis

We grow our content investment every year to differentiate our proposition and to give our customers more of the TV they want to watch. Recently we've increased our investment in securing rights to non-TV products such as Sky Go, Sky Go Extra or Sky Online.

Programming spend as % of revenue

2015 **43%**

2014 **43%**

2013 **42%**

Description

Investment in content broadly grows in line with the rate of revenue growth over the medium term.

Analysis

Holding growth in other operating costs below the rate of revenue growth frees up capacity to invest an increasing proportion of revenues in the content that matters most to customers.

Innovation

Sky Go customers

2015 **10.0m**

2014 **8.0m**

2013 **7.0m**

Description

Sky Go customers are those that have registered to use our mobile TV service.

Analysis

Innovation across multiple technologies enables the Group to expand into new areas, develop new revenue streams and benefit from adjacent sectors. In 2015 two million more customers registered for Sky Go across all of our markets.

Connected customers

2015 **9.0m**

2014 **6.8m**

2013 **3.3m**

Description

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

Analysis

In 2015 we connected a further two million customers across the Group. Connected customers have access to a wider range of content and generally they will watch more pay TV content, churn less and use more of our transactional services.

Carbon intensity

2015 **11.42 tCO₂e/£m¹**

Description

Carbon intensity defined as tonnes of CO₂ equivalent (tCO₂e) emissions relative to revenue, is one of the key performance indicators we use to measure our environmental performance. Our total gross CO₂e emissions include all direct Greenhouse Gas emissions across all of our territories and are 128,819¹ tCO₂e for 2014/15.

Analysis

In 2014/15 our carbon intensity is in line with that reported in previous years, noting that in 2014/15 we have reported across all our territories. We are working on a set of Group environment targets for 2015/16.

For CO₂e/£m territory breakdown and progress against our emission targets pages 71-72.

¹ Independently assured by Deloitte LLP

² Sky Foundation is a separate legal entity. Its Board is answerable to the respective regulatory authorities in Germany.

Operational review

1 - The Blacklist, Sky Living HD, Sky UK 2 - The Affair, Sky Atlantic HD, Sky UK
3 - The Avengers, Sky Movies HD, All territories 4 - Jessica Ennis: Hill, Sky Academy
Ambassador, Sky UK 5 - England vs Australia, 2014 Autumn Internationals
Rugby Union, Sky Sports HD, Sky UK 6 - Gomorrah, Sky Atlantic HD, All territories
7 - Our people 8 - Mayweather vs Pacquiao, Boxing, Sky Sports Box Office, Sky UK
Sky Select, Sky Deutschland

UK & Ireland

Customers	Net customer growth
12.0m	+506k
Products	Net product growth
38.0m	+3.3m

Sky delivered an exceptional year's performance in the UK and Ireland as investments in content and connected services delivered growth across all areas of the business

Our strategy of segmenting the market using the complementary Sky and NOW TV brands helped achieve the highest organic customer growth in 11 years with 506 000 net new customer additions over the year. This was almost 50% more than the prior year and took our customer base past the 12-million milestone.

At the same time we added 3.3 million new paid-for subscription products, taking us past 38 million products. This reflects strong demand across the board, with accelerated growth in both TV and broadband.

Increased customer satisfaction resulting from the growth of connected TV services delivered a 110 basis-point reduction in 12-month rolling churn to 9.8%, our best performance in 11 years.

1 - Alex Crawford, Sky News HD, Sky UK 2 - Enfield Haunting, Sky Living HD, Sky UK
 3 - Lewis Hamilton winning at Abu Dhabi to become 2014 Formula One World Champion, Sky Sports F1, Sky UK, Sky Sport F1 HD, Sky Deutschland and Sky Italia 4 - Parkinson: Masterclass, Sky Arts HD, Sky UK 5 - England vs Canada, Women's Rugby World Cup Final 2014, Sky Sports, Sky UK
 6 - 2014 Ryder Cup, Sky Sports Ryder Cup, Sky UK, Sky Sport HD, Sky Deutschland and Sky Italia

Content

Much of our success in 2015 can be attributed to an outstanding year on screen. We increased the quality and range of programming across our portfolio making particular progress in our strategy to increase the volume and quality of our home-grown content.

In entertainment, we launched *Fortitude* in January our first original drama to premier simultaneously across all of our territories. Reaching a total audience of 3.7 million in the UK across the series it was Sky Atlantic's most successful original drama to date and the second most successful show ever to air on the channel.

Elsewhere in the portfolio we launched a new Sky Arts on demand service as part of a major refresh of our arts offering. With over 1,000 hours of dedicated arts programming including programmes commissioned and acquired exclusively for on demand, the new service underlines Sky's long-term commitment to the arts. Sky Arts will also benefit from new programming produced in a new Arts Production Hub to be based in Milan.

Our partnerships with some of the world's leading content producers continue to pay dividends. The fifth series of HBO hit *Game of Thrones* was available to view by Sky and NOW TV customers at the same time as the US, with the finale achieving a record audience of 3.1 million. This makes it the most-watched Sky entertainment programme ever in Sky homes.

In movies, the strength of the partnerships we enjoy with the major Hollywood studios helped us continue to improve the offering for customers. Overall consumption of movies was up 10% on the prior year fuelled by the continued success of our on demand offering. On demand downloads surpassed 500 million as customers chose from a library of more than 1,000 movies.

In sport, we had a strong year on screen achieving record performances across a range of different sports. For the second season running, Sky showed 49 of the top 50 most watched Premier League matches. An exciting end to the F1 season delivered live race audiences up 20% year on year – a record season for F1 on Sky Sports. Meanwhile the World Darts Championship attracted a peak audience of 1.7 million for the final in January, the biggest-ever audience for darts on Sky.

Additionally we secured a number of key rights deals in the year to ensure Sky Sports remains the number one choice for sports fans. This included a significant win in the Premier League's tender process in February giving us the rights to 126 live Premier League matches a season from 2016/17 to 2018/19. This is three times as many live matches as any other broadcaster including the best match picks, and the most-watched slots in the schedule.

UK & Ireland (continued)

Innovation

One of our priorities for 2015 was to use our leadership in innovation to step change the viewing experience for customers and make it even easier for them to access our content however and whenever they want it.

In the home, we extended our lead as the UK's biggest connected box platform, connecting more than one million customers over the year to take our connected base past seven million.

With over 60% of all TV households now connected, on-demand usage has continued to grow as customers embrace the greater choice and flexibility it offers. Total on-demand downloads¹ surpassed 1.5 billion in the year, up 60% year on year.

Our investment in Sky Box Sets proved particularly popular with the service, delivering viewing equivalent to our fourth most popular Sky channel in 2015. We've also expanded our on-demand library elsewhere, including an increase in our dedicated kids' programming from 700 to 4,000 episodes.

The growing penetration of connected devices is enabling us to exploit new revenue opportunities. Sky Store Buy & Keep, our entry into the movie purchase sector, helped drive a 77% increase in Sky Store revenues over the year. We added new functionality in 2015 to enable customers to access their movie collection from their mobile device. This means that customers can buy a movie from Sky and watch it at home in their sitting room, or enjoy it when they are out and about.

This was just one development that helped us cement our position as Europe's biggest mobile TV provider. The number of Sky Go registered households in the UK and Ireland passed six million in the year. Meanwhile, Sky Go Extra, our paid-for mobile service which offers the ability to watch on more devices and download content to watch offline, became Sky's fastest-growing product ever.

1 - Sky Box Sets, Sky UK 2 - Now TV Entertainment Pass, Sky UK 3 - Sky AdSmart, Sky UK
4 - Sky Service app, Sky UK 5 - Sky Hub wireless broadband router, Sky UK

2015 also saw us make great progress with our OTT streaming service NOW TV, helping us to extend our reach into Freeview homes. Sales of sports passes almost trebled to close to 1.5 million during the year thanks to a rebrand and the introduction of a new sports weekly pass.

Everything we see tells us that NOW TV customers love the service: more than one-third of NOW TV customers buy more than one pass every month while the average NOW TV Entertainment pass customer watches over five hours per week. In addition, the growth in NOW TV is not cannibalising the Sky customer base with more than 90% of all customers having never considered Sky before signing up.

Customer

In a fast-moving market with an ever-greater choice of products and providers, we believe that our capability in service delivery gives us a competitive advantage. We have continued to raise the bar in this area in 2015.

Our main focus has been on simplifying the customer experience. Central to this is our Digital First programme which we have been rolling out across the UK and Ireland. During the course of 2015, we reduced the number of inbound calls to our service centres by 11% as record numbers of customers interacted with us via our service app, through our automated voice service or via the set-top box. At the same time, we closed the year with our customer satisfaction scores at all-time highs. This was reflected in the latest Ofcom survey which showed Sky leading the market on customer satisfaction, with the fewest complaints across our product set.

The capability we have developed in service delivery also enables us to bring new products to market quickly and at scale. In January, we announced plans to add mobile voice and data services to our customer offering in 2016, following the conclusion of a new partnership with Telefonica UK. Building on the strength of the Sky brand and our leadership in innovation and customer service, we will launch a range of exciting new services that will enable us to exploit new opportunities for growth.

Our customer-led approach means we take our responsibilities seriously. For example, this year, we took an important next step to protect our customers online with adjustments to our award-winning online filtering tool, Sky Broadband Shield. We now make sure the default setting is 'on' unless customers choose otherwise. We've contacted every one of our broadband customers to explain the benefits and to highlight their options.

Germany & Austria

Customers	Net customer growth
4.3m	+467k
Products	Net product growth
7.1m	+969k

Sky achieved an excellent year of growth in Germany and Austria, attracting more new customers than in any year since launch thanks to rising demand for our products and services

Over the 12-month period we added 467,000 customers to take the base past four million

At the same time paid-for product growth totalled almost one million, more than 50% higher than the previous year thanks to strong growth in HD

Continued take-up of two-year contracts helped drive churn down to a record full-year low of 8.6% a full 180 basis points lower than the prior year

Content

In entertainment we made important progress towards extending the range and quality of content on offer to customers in Germany and Austria with our first move into original content production. Scandinavian crime drama *100 Code* a co-production with Red Arrow premiered in March attracting a total of 1.8 million views across the series. Filming also started on a police crime thriller series, *Babylon Berlin* to air in the coming year.

In addition 2015 was a big year for acquired content with Sky customers enjoying more season premieres than ever before from some of the world's best content producers. This included the fifth series of *The Walking Dead* and the final series of *True Blood*.

Our partnership with HBO delivered the exclusive launch of the fifth series of *Game of Thrones* on Sky Thrones HD Europe's first channel dedicated to a single series. This set a new record for a show on Sky in Germany and Austria with 5.4 million views across the series. Reflecting the growing demand for flexibility of viewing, *Game of Thrones* series 5 was also the most successful series to date on Sky Go.

In movies Christmas came early for Sky customers and fans of *Star Wars* when Sky Hits was re-branded Sky Star Wars HD. In December, showing all six *Star Wars* films around the clock. This more than doubled the viewership versus the prior year, with more than three million people tuning in over the two weeks.

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Innovation

Building on the success of our connected TV strategy in the UK, we started to connect the first German and Austrian satellite customers' boxes to the internet in December. It's early days but almost 250,000 set-top boxes had already been connected in the first six months to the end of June, opening up access to a much richer entertainment experience for customers.

Out of the home, we extended our lead as the number one provider for mobile TV by launching Sky Go on Android devices in December. We also continued to build out the range of content available, including the addition of a brand-new lifestyle section with 100 new programmes each month from partner channels.

We extended our reach into the pay light segment of the market with the December launch of our Sky Online service. Using a streaming box based on the same technology that has been so popular in the UK, Sky Online offers customers a choice of two packages as well as a Supersport Day Ticket for those with either one of these packages. This provides customers with a flexible, user-friendly and affordable way of accessing Sky's premium content.

Customer

We have made progress in building our customer service capability over the year. This has been recognised with a number of awards, including leader in the entertainment sector in the 'TOP SERVICE Deutschland 2015' competition.

The importance we place on giving customers the best experience from Sky extends to providing parents with easy-to-use tools to help protect their family from unsuitable content. Alongside PIN protection, we provide a dedicated Kids-Zone on Sky Go which is safe and secure.

Italy

Customers	Net customer growth
4.7m	-
Products	Net product growth
8.6m	+387k

Sky in Italy held its customer base stable after three years of negative growth, a great achievement given a challenging economic environment

We ended the year with 4.7 million customers while paid-for products increased by 387,000 to 8.6 million thanks to good growth in HD

In common with our other markets, we delivered a significant reduction in churn in the year. The 12-month rolling churn figure was 9.6%, a decline of more than four percentage points in two years. As in the UK, much of this improvement can be attributed to the rise in the connected base and the resultant increase in customer satisfaction.

Content

In entertainment, we continued to differentiate ourselves from the competition in Italy by investing on screen to give customers an increasing range of high quality and distinctive programming.

Much of the focus in 2015 went towards building the momentum we've established in original production. Crime drama *Gomorra* was sold to more than 100 countries and we commissioned a second series to air in 2016. Meanwhile, political series *1992* became the second Sky drama after *Fortitude* to premiere simultaneously across all five territories. *1992* achieved the biggest-ever audience for an original scripted series in Italy at launch in the spring.

There's more to look forward to in the coming year with the announcement of *The Young Pope*, a major new co-production between Sky, HBO and Canal+. Directed by Academy Award-winning Paolo Sorrentino, the eight-part drama features Jude Law in the starring role and will launch across all our markets next year.

2015 also saw the announcement of plans for a new Sky Arts Production Hub to be based in Milan. Part of a major commitment to the arts across the group, the Production Hub will act as a centre of excellence, producing a slate of outstanding arts programming for

customers across all Sky territories in addition to locally commissioned content. It will also focus on producing pan-European events to celebrate the arts.

Elsewhere, our general entertainment channel, Sky Uno, built on its reputation as the exclusive home of mainstream franchises. The latest series of *X Factor Italia* and *MasterChef Italia* delivered a significant increase in ratings of more than 30% and 20% respectively year on year while the successful launch of *Italia's Got Talent* made it the top-rated entertainment show debut on the platform ever.

We are monetising our investment in content more broadly through the expansion of our free-to-air offering on Digital Terrestrial Television (DTT). In 2015, we launched news channel Sky TG24 on free-to-air joining Cielo, our general entertainment channel which grew viewing 10% year on year.

In sport, we further strengthened our domestic football offering by securing the exclusive rights to all 472 matches in Serie B football for the next three seasons. We also won the exclusive rights to the 2016 European Qualifiers and the 2018 World Cup Qualifiers. Added to our rights for all Serie A matches, with one-third exclusive and all Europa League matches, this confirms Sky Italia as the number one choice for football fans.

Away from football, we continued to extend the breadth of our offering with the exclusive rights to the EuroBasket 2015 tournament and the Rugby World Cup in 2015.

On screen, motorsports performed particularly strongly. MotoGP and Formula 1 grew their ratings by 30% and 24% respectively year on year in a season in which Italian teams and drivers regained their competitiveness.

1 - MasterChef Italia, Sky Uno HD, Sky Italia 2 - TG24 for schools, Sky Italia 3 - Juventus vs Roma, Serie A, Sky Sport HD, Sky Italia 4 - Sky Calcio Show, Sky Sport HD, Sky Italia 5 - My Sky HD box, Sky Italia

Innovation

We underlined our position of leadership in innovation in Italy with a series of important new launches designed to make it easier to access and consume content

In the home, we drove a 51% increase in connected boxes to end the year with more than one-third of all customers connected to the internet. This growing penetration of connected devices fuelled an explosion in on demand usage with total downloads more than double the previous year

Out of the home registered households to Sky Go increased to almost half of the base by year-end. Sky Go is particularly valued by sports fans, attracting an average of more than half a million streams at weekends

We opened up new headroom for growth in April with the launch of a new IPTV service in partnership with Telecom Italia. The new service uses the first Sky PVR to work via satellite and IPTV streaming to offer our full content line-up over broadband for the first time. This broadens our reach and gives us access to the many Italian households who are unable to install a satellite dish

The partnership with Telecom Italia is a key component to the broadly-based growth strategy that also saw the launch of a new Sky Online box in May. The new box is based on the same technology as the NOW TV box in the UK, and Sky Online box in Germany and enables us to tap into a new segment of the market

Customer

As in our other territories, we know that our success comes from a focus on customers and a mindset of embracing change in order to provide customers with the best-possible experience from Sky

We sought to strengthen our relationship with Italian customers by increasing the rewards for loyalty. From April, we reserved Sky Go for those customers that have been with Sky for more than a year. We also sought to increase customer engagement by upgrading our customer reward programme with a series of new initiatives and benefits

In order to give parents more control over the type of content their children watch, we introduced Parental Control. Activated through a remote device, it is available to all Sky customers in Italy

Alongside this, we have continued our focus to improve the quality and flexibility of our customer service by moving more of our customer interactions online. We reduced our calls per customer by 12% over the year with downloads to our self-service mobile app surpassing 1.5 million by year-end

Operational review

1 - The Blacklist, Sky Living HD, Sky UK 2 - The Affair, Sky Atlantic HD, Sky UK
3 - The Avengers, Sky Movies HD, All territories 4 - Jessica Ennis-Hill, Sky Academy
Ambassador, Sky UK 5 - England vs Australia, 2014 Autumn Internationals,
Rugby Union, Sky Sports HD, Sky UK 6 - Gomorrah, Sky Atlantic HD, All territories
7 - Our people 8 - Mayweather vs Pacquiao, Boxing, Sky Sports Box Office, Sky UK,
Sky Select, Sky Deutschland

UK & Ireland

Customers	Net customer growth
12.0m	+506k
Products	Net product growth
38.0m	+3.3m

Sky delivered an exceptional year's performance in the UK and Ireland as investments in content and connected services delivered growth across all areas of the business

Our strategy of segmenting the market using the complementary Sky and NOW TV brands helped achieve the highest organic customer growth in 11 years with 506 000 net new customer additions over the year. This was almost 50% more than the prior year and took our customer base past the 12-million milestone.

At the same time, we added 3.3 million new paid-for subscription products, taking us past 38 million products. This reflects strong demand across the board, with accelerated growth in both TV and broadband.

Increased customer satisfaction resulting from the growth of connected TV services delivered a 110 basis-point reduction in 12-month rolling churn to 9.8%, our best performance in 11 years.

1 - Alex Crawford: Sky News HD, Sky UK 2 - Enfield Haunting, Sky Living HD, Sky UK 3 - Lewis Hamilton winning at Abu Dhabi to become 2014 Formula One World Champion, Sky Sports F1, Sky UK, Sky Sport F1 HD, Sky Deutschland and Sky Italia 4 - Parkinson: Masterclass, Sky Arts HD, Sky UK 5 - England vs Canada: Women's Rugby World Cup Final 2014, Sky Sports, Sky UK 6 - 2014 Ryder Cup, Sky Sports Ryder Cup, Sky UK, Sky Sport HD, Sky Deutschland and Sky Italia

Content

Much of our success in 2015 can be attributed to an outstanding year on screen. We increased the quality and range of programming across our portfolio, making particular progress in our strategy to increase the volume and quality of our home-grown content.

In entertainment, we launched *Fortitude* in January, our first original drama to premier simultaneously across all of our territories. Reaching a total audience of 3.7 million in the UK across the series, it was Sky Atlantic's most successful original drama to date and the second most successful show ever to air on the channel.

Elsewhere in the portfolio, we launched a new Sky Arts on demand service as part of a major refresh of our arts offering. With over 1000 hours of dedicated arts programming, including programmes commissioned and acquired exclusively for on demand, the new service underlines Sky's long-term commitment to the arts. Sky Arts will also benefit from new programming produced in a new Arts Production Hub to be based in Milan.

Our partnerships with some of the world's leading content producers continue to pay dividends. The fifth series of HBO hit *Game of Thrones* was available to view by Sky and NOW TV customers at the same time as the US, with the finale achieving a record audience of 3.1 million. This makes it the most-watched Sky entertainment programme ever in Sky homes.

In movies, the strength of the partnerships we enjoy with the major Hollywood studios helped us continue to improve the offering for customers. Overall consumption of movies was up 10% on the prior year, fuelled by the continued success of our on demand offering. On demand downloads surpassed 500 million as customers chose from a library of more than 1000 movies.

In sport, we had a strong year on screen, achieving record performances across a range of different sports. For the second season running, Sky showed 49 of the top 50 most watched Premier League matches. An exciting end to the F1 season delivered live race audiences up 20% year on year - a record season for F1 on Sky Sports. Meanwhile the World Darts Championship attracted a peak audience of 1.7 million for the final in January, the biggest-ever audience for darts on Sky.

Additionally, we secured a number of key rights deals in the year to ensure Sky Sports remains the number one choice for sports fans. This included a significant win in the Premier League's tender process in February, giving us the rights to 126 live Premier League matches a season from 2016/17 to 2018/19. This is three times as many live matches as any other broadcaster, including the best match picks, and the most-watched slots in the schedule.

UK & Ireland

(continued)

Innovation

One of our priorities for 2015 was to use our leadership in innovation to step change the viewing experience for customers and make it even easier for them to access our content however and whenever they want it.

In the home, we extended our lead as the UK's biggest connected box platform, connecting more than one million customers over the year to take our connected base past seven million.

With over 60% of all TV households now connected, on-demand usage has continued to grow as customers embrace the greater choice and flexibility it offers. Total on-demand downloads

surpassed 15 billion in the year, up 60% year on year.

Our investment in Sky Box Sets proved particularly popular with the service, delivering viewing equivalent to our fourth most popular Sky channel in 2015. We've also expanded our on-demand library elsewhere, including an increase in our dedicated kids' programming from 700 to 4,000 episodes.

The growing penetration of connected devices is enabling us to exploit new revenue opportunities. Sky Store Buy & Keep, our entry into the movie purchase sector, helped drive a 77% increase in Sky Store revenues over the year. We added new functionality in 2015 to enable customers to access their movie collection from their mobile device. This means that customers can buy a movie from Sky and watch it at home in their sitting room, or enjoy it when they are out and about.

This was just one development that helped us cement our position as Europe's biggest mobile TV provider. The number of Sky Go registered households in the UK and Ireland passed six million in the year. Meanwhile, Sky Go Extra, our paid-for mobile service which offers the ability to watch on more devices and download content to watch offline, became Sky's fastest-growing product ever.

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2015 also saw us make great progress with our OTT streaming service NOW TV helping us to extend our reach into Freeview homes. Sales of sports passes almost trebled to close to 15 million during the year thanks to a rebrand and the introduction of a new sports weekly pass.

Everything we see tells us that NOW TV customers love the service more than one-third of NOW TV customers buy more than one pass every month while the average NOW TV Entertainment pass customer watches over five hours per week. In addition, the growth in NOW TV is not cannibalising the Sky customer base with more than 90% of all customers having never considered Sky before signing up.

Customer

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Germany & Austria

Customers	Net customer growth
4.3m	+467k
Products	Net product growth
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Sky achieved an excellent year of growth in Germany and Austria, attracting more new customers than in any year since launch thanks to rising demand for our products and services

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Italy

Customers	Net customer growth
4.7m	–
Products	Net product growth
8.6m	+387k

Sky in Italy held its customer base stable after three years of negative growth, a great achievement given a challenging economic environment

We ended the year with 4.7 million customers, while paid-for products increased by 387,000 to 8.6 million thanks to good growth in HD

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Financial review

1 - New England Patriots 2015 NFL champions
Super Bowl Sky Sports HD Sky UK 2 - True Detective
Sky Atlantic HD All territories 3 - Sky Frauenlauf
Sky Foundation Sky Deutschland 4 - Sky Go
All territories 5 - Stand Up Be Counted
Election 2015 Sky News initiative Sky UK
6 - Serena Williams US Open 2014 champion
Sky Sports HD Sky UK 7 - Sky Sports Living for
Sport Awards Sky Academy Sky UK 8 - Sky Ride
Sky UK 9 - Sky Academy Skits Studios Sky UK
10 - A League of Their Own Sky 1 HD Sky UK

Financial review

We achieved an excellent year of growth across the group. Our investments in the viewing experience attracted record numbers of customers to join Sky and drove loyalty among existing customers to new highs with churn under 10% in each market. This operational performance translated into strong revenue growth and, alongside our good cost control, this resulted in an 18% increase in operating profit and over £1 billion of operating free cash flow. We also propose a further 3% increase in the dividend.

Andrew Griffith, Group Chief Financial Officer

Adjusted operating profit

£1.4bn

Dividend

32.8p

Adjusted basic EPS

56.0p

Group financial performance

To provide a more representative analysis of ongoing performance of the Group, all commentary down to the operating profit level for the Group is on an adjusted basis as if we had owned Germany and Italy for the full year from 1 July. The financial results of Germany and Italy are translated into sterling at a constant currency rate of £1.31:€1.

Unless otherwise stated, adjusted figures below are from continuing operations and on a recurring basis excluding i) the impact of Sky Bet as this is presented as a discontinued operation, ii) set-top-box sales to Italy which are now an intragroup transaction, and iii) ESPN carriage revenue in the UK and Ireland from FY14 comparatives as we no longer retail the channel.

Numbers below the operating profit line for the Group consolidate Germany and Italy only for the actual period of ownership from 12 November and are on an adjusted basis.

Our statutory financial reporting consolidates Germany and Italy for the period from 12 November 2014 to 30 June 2015. During this period, Italy contributed revenue of £1,297 million and operating profit of £25 million, while Germany contributed revenue of £866 million and an operating loss of £21 million.

Revenue

We achieved excellent growth in Group revenues which were up 5% to £11,283 million (2014: £10,776 million). Revenue in Germany was up 9% to £1,377 million (2014: £1,262 million) whilst revenue in the UK was up 6% to £7,820 million (2014: £7,368 million). Revenues in Italy remained resilient at £2,086 million (2014: £2,140 million) despite the tough economic backdrop.

We have delivered strong rates of growth across all of our main revenue streams with good consumer demand for our products and services helping drive subscription revenue up 5% whilst transactional revenue was our fastest growing area with revenue up 22%. We also achieved good growth in both advertising (+4%) and wholesale (+5%) revenues highlighting the strength of our ability to monetise content.

Subscription revenue growth of 5% was underpinned by excellent customer growth across the group of almost one million customers and strong product growth of 4.6 million, with the largest proportion of revenue growth continuing to be delivered through the UK where revenues were up over £300 million. Alongside this, our best year of customer growth in Germany drove a 10% increase in subscription revenues, whilst in Italy we held total customers and revenue flat.

Transactional revenues increased by 22% to £173 million (2014: £142 million) as we benefited from the success of our Buy and Keep service which surpassed weekly revenue of £1 million in Q4 and NOW TV transactions which totalled almost 1.5 million over the past 12 months.

Our content-related revenues also performed well. Wholesale and syndication revenues were up 5% to £550 million (2014: £524 million) largely driven by continued growth in the UK where revenues were up 19% as success on screen led to more favourable terms for our channels with wholesale partners. Alongside this, revenues were strong through the distribution of our programming internationally and the first time consolidation of Znak & Jones and Love Productions. In Italy underlying wholesale revenues were broadly flat year on year (excluding the benefit in the prior year from Champions League resale revenues), whilst revenues in Germany were slightly down following the successful migration of former Deutsche Telekom wholesale customers to a retail relationship in the prior year.

We delivered good growth in advertising revenues of 4% to £716 million (2014: £690 million) with Germany delivering excellent growth of 26% through higher sellout rates and increased inventory around Bundesliga. Advertising revenues in the UK grew strongly up 5% due to the benefit of incremental AdSmart revenues combined with Sky Media increasing their share of net advertising revenue by almost 170 basis points, while advertising revenue was down in Italy as we lapped the €27 million benefit of the FIFA World Cup revenues in Q4 last year.

Costs

Total Group costs grew by just 3% well below the rate of revenue growth, to £9,883 million (2014: £9,591 million) as we maintained tight discipline over our operating cost base while continuing to invest where our customers see the greatest value.

Programming costs increased 5% in line with revenue growth as we increased the depth and breadth of our offering. We launched the exclusive ITV Encore channel in the UK in June 2014 and expanded our channel line-up in Germany, as well as having a full-year impact of the new Sky Atlantic channel in Italy. We continue to invest in a diverse content portfolio with an enhanced box set offering in the UK and increased investment on Sky originated content, with successes including *Fortitude* and *1992*. The strong growth in Sky Store revenues has driven an increase in our transactional programming costs.

Our network costs in the UK were up only 3% well below the rate of home communications revenue growth.

Sales General and Administration costs grew by just 1% as the higher up-front cost of strong subscriber growth in Germany was offset by efficiencies made across the UK and Italy as part of their respective operating efficiency programmes.

Financial review

(continued)

Profits and earnings

Operating profit grew strongly up 18% to £1 400 million (2014 £1 185 million) as we combined excellent revenue growth with careful choices within our cost base whilst continuing to invest in programming. This has driven a 140 basis point expansion in our operating margin.

The share of joint ventures and associates' profits was £28 million (2014 £35 million) and net finance costs increased by £91 million to £200 million (2014 £109 million) due to the interest charge associated with an additional £5.4 billion of gross debt that we issued during the year.

The tax charge of £251 million (2014 £237 million) was at an effective tax rate of 21%.

Profit after tax for the year grew by 6% to £945 million (2014 £892 million) resulting in adjusted earnings per share of 56.0 pence (2014 57.1 pence) after accounting for the higher number of shares following our issuance in July 2014. 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 1 690 million (2014 1 562 million). The closing number of shares excluding the ESOP shares at 30 June 2015 was 1 704 million (2014 1 546 million).

Adjusting items

Statutory profit for the year includes a gain of over £1 billion relating to a £492 million gain on the disposal of available-for-sale investments, a £299 million gain on the disposal of our stake in the National Geographic Channel, and a profit of £600 million on the sale of a controlling stake in Sky Bet. This was partially offset by operating expenses of £396 million principally comprising the costs of a corporate efficiency and restructuring programme, the costs of a programme to replace aged customer equipment, advisory and transaction fees incurred on the purchase of Sky Deutschland and Sky Italia, costs of integrating those businesses in the enlarged Group and the ongoing amortisation of acquired intangible assets.

Statutory profit after tax was £1 332 million (2014 £820 million).

Following the sale of a controlling stake in Sky Bet on 19 March 2015 the results of Sky Bet are now presented as a discontinued operation. The sale resulted in a profit on disposal of £600 million which is included within profit for the year from discontinued operations.

For a reconciliation of statutory to adjusted numbers page 144

Group cash flow and financial position

Group free cash flow increased year on year by 20% to £1,060 million (2014 £885 million) while net debt increased to £5 056 million (2014 £1 212 million) as a result of the acquisition of Sky Deutschland and Sky Italia in November 2014. Gross debt as at 30 June 2015 was £7,534 million with cash of £2,478 million. The ratio of net debt to EBITDA at 30 June 2015 was approximately 2.5 times. Sky has an investment grade credit rating, being rated BBB by Standard & Poors and Baa2 by Moody's, both with stable outlook.

	As at 1 July 2014 £m	Cash move- ments £m	Non- cash move- ments £m	As at 30 June 2015 £m
Current borrowings	11	-	483	494
Non-current borrowings	2 658	5 082	(322)	7 418
Borrowings-related derivative financial instruments	(80)	-	(298)	(378)
Gross debt	2 589	5 082	(137)	7 534
Cash and cash equivalents	(1 082)	(296)	-	(1 378)
Short-term deposits	(295)	(805)	-	(1 100)
Net debt	1 212	3 981	(137)	5 056

Balance Sheet

During the year total assets increased by £8 909 million to £15 358 million at 30 June 2015. Non-current assets increased by £6 923 million to £10 799 million primarily due to an increase of £3 141 million in goodwill and an increase of £3,274 million in intangible assets largely as a result of the recognition of goodwill and customer contracts and relationships recognised on the acquisition of Sky Deutschland and Sky Italia. Current assets increased by £1,986 million to £4 559 million at 30 June 2015 principally due to a £805 million increase in short-term deposits, a £461 million increase in current trade and other receivables and a £301 million increase in inventories. Current inventories and trade and other receivables have increased mainly due to the impact of the consolidation of the inventories and trade and other receivables of Sky Deutschland and Sky Italia.

Total liabilities increased by £6 757 million to £12 134 million at 30 June 2015. Current liabilities increased by £1,685 million to £4,204 million, primarily due to a £1,144 million increase in trade and other payables due to the impact of the consolidation of the trade and other payables of Sky Deutschland and Sky Italia, and a £483 million increase in current borrowings. Non-current liabilities increased by £5 072 million to £7 930 million, principally due to a £4 760 million increase in the Group's non-current borrowings. Current and non-current borrowings have increased as a result of the issue of euro, dollar and sterling bonds in the year.

Distributions to Shareholders

The Directors' proposed final dividend of 20.5 pence per share takes the total dividend payable in respect of the financial year to 32.8 pence per share, an increase of 3% on last year.

The proposed dividend continues the track record of shareholders benefiting from our strong financial performance and represents the 11th consecutive year-on-year increase in the dividend.

The ex-dividend date will be 22 October 2015 and, subject to shareholder approval at the 2015 Annual General Meeting, the final dividend of 20.5 pence will be paid on 20 November 2015 to shareholders appearing on the register at the close of business on 23 October 2015.

Post balance sheet events

Purchase of minority interests in Sky Deutschland

As announced on 17 February 2015, Sky initiated the necessary steps for the transfer of the remaining approximately 4% minority shareholdings in Sky Deutschland. The requisite shareholder resolution was subsequently approved by 99.4% of shareholders at an Extraordinary General Meeting of Sky Deutschland on 22 July 2015 and we expect the formal transfer of the minority shareholdings to be effective in the second quarter of the 2015/16 financial year.

For more detail see note 33, page 130.

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.

For Corporate Governance report: pages 40-50

Detailed controls and any relevant action plans are prepared for the Audit Committee as part of the formal half-yearly reporting process. Additionally we have established a procedure to monitor risks and any changes thereto across the Group. Any relevant information arising from such monitoring is also reported to the Audit Committee.

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, taking into account the broader geographical spread and larger scale of the Group following the acquisitions of Sky Deutschland and Sky Italia.

Description of risk	Mitigation
Market and competition	
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.	The Group continues to make significant investments in innovation. The Group's product development strategic aim is to be at the forefront of progressive technology.
A failure to develop the Group's product proposition in line with changing market dynamics and expectations could erode the Group's competitive position.	Please see the Innovation section on page 7 of the Group Chief Executive's Statement for further details of these products. The Group regularly reviews its pricing and packaging structures to ensure that its product proposition is appropriately placed within the market.
Great content is central to Sky's product proposition and increased competition could impact the Group's ability to acquire content that our customers want on commercially attractive terms.	The Group works closely with its marketing partners to ensure that the value of its offering is understood and communicated effectively to its customers.
Economic conditions have been challenging in recent years across the territories in which the Group operates and the future remains uncertain. A significant economic decline in any of those territories could impact the Group's ability to continue to attract and retain customers in that territory.	The Group makes significant investment in the origination of content as well as in acquisition from across the world. The Group also works to develop and maintain the brand value associated with its individual channels.

Description of risk	Mitigation
Regulatory breach and change	
The Group is subject to regulation primarily under Austrian, German, Irish, Italian, UK and European Union legislation	The Group's ability to operate or compete effectively could be adversely affected by the outcome of investigations or by the introduction of new laws, policies or regulations, changes in the interpretation or application of existing laws, policies and regulations, or failure to obtain required regulatory approvals or licences. Please see page 36 of the Regulatory Matters section for further details
The regimes which apply to the Group's business include, but are not limited to:	The Group manages these risks through active engagement in the regulatory processes that affect the Group's business
<ul style="list-style-type: none"> Broadcasting – as a provider of audiovisual media services, the Group is subject to Austrian, German, Italian and UK licensing regimes under the applicable broadcasting and communications legislation. These obligations include requirements to comply with relevant codes and directions issued by the relevant regulatory authorities, including for example, in the UK, Ofcom's Broadcasting Code, Code on the Scheduling of Television Advertising and Cross Promotions Code 	The Group actively seeks to identify and meet its regulatory obligations and to respond to emerging requirements. This includes, for example:
<ul style="list-style-type: none"> Technical services – as a provider of certain technical services in the UK and Germany, Sky UK and Sky Deutschland are subject to regulation in their respective countries, and 	<ul style="list-style-type: none"> Broadcasting – compliance controls and processes are in place in the Group's content services. Interaction with the relevant regulatory authorities is co-ordinated between the relevant local Compliance, Regulatory and Legal departments
<ul style="list-style-type: none"> Telecommunications – Sky UK is subject to the General Conditions of Entitlement adopted under the Communications Act 2003 (UK) and the Conditions for the provision of Electronic Communications Networks and Services under the Communications Regulation Act 2002 (Ireland), which impose detailed requirements on providers of communications networks and services 	<ul style="list-style-type: none"> Technical services – with respect to the provision of certain technical services in the UK and Germany, processes are in place to monitor third-party broadcaster access to the relevant broadcast platforms and to ensure that this is provided on fair, reasonable and non-discriminatory terms
The Group is also subject to generally applicable legislation including, but not limited to, competition (antitrust), anti-bribery, consumer protection, data protection and taxation	<ul style="list-style-type: none"> Telecommunications – compliance controls and processes are in place in the UK and Ireland, overseen by the Customer Compliance Committee, to monitor compliance and performance against the General Conditions of Entitlement and the Conditions for the provision of Electronic Communications Networks and Services
The Group is currently and may be in the future, subject to proceedings and/or investigation and enquiries from regulatory and antitrust authorities	The Group maintains appropriate oversight and reporting, supported by training, to provide assurance that it is compliant with regulatory requirements
Please see page 36 of the Regulatory Matters section for further details	
Customer service	
A significant part of the Group's business is based on a subscription model and its future success relies on building long-term relationships with its customers. A failure to meet its customers' expectations with regards to service could negatively impact the Group's brand and competitive position	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
	The Group makes significant investments in order to deliver continuous development and improvement to its customer service capabilities, including investment in its contact centres across the UK and Ireland, insourcing of service centres in Germany and implementing ongoing training and development plans
	The Group tracks its customer service performance, benchmarks its customer service experience and strives to be best in class
Technology and business interruption	
The products and services that the Group provides to its customers are reliant on complex technical infrastructure	The Group makes significant investment in technology infrastructure to ensure that it continues to support the growth of the business and has a robust selection and monitoring process of third-party providers
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	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
	The Group also organises regular scenario based group-wide business continuity exercises to ensure ongoing readiness of key staff, systems and sites

Principal risks and uncertainties (continued)

Description of risk	Mitigation
<p>Supply chain</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>
<p>Financial</p> <p>The effective management of its financial exposures is central to preserving the Group's profitability</p> <p>The Group is exposed to financial market risks and may be impacted negatively by fluctuations in foreign exchange and interest rates which create volatility in the Group's results to the extent that they are not effectively hedged</p> <p>Any increase in the financial leverage of the Group may limit the Group's financial flexibility</p> <p>The Group may also be affected adversely by liquidity and counterparty risks</p>	<p>The Group's finance teams are embedded within the business to provide support to management and to ensure accurate financial reporting and tracking of our business performance. Reporting on financial performance is provided on a monthly basis to senior management and the Board</p> <p>The Group continually invests in the improvement of its systems and processes in order to ensure sound financial management and reporting</p> <p>The Group 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 AAAA 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 & Customs. The Group aims to deal with taxation issues wherever possible as they arise in order to avoid unnecessary disputes</p>
<p>Security</p> <p>The Group must protect its customer and corporate data and the safety of its people and infrastructure as well as needing to have in place fraud prevention and detection measures</p> <p>The Group is responsible to third-party intellectual property owners for the security of the content that it distributes on various platforms (Sky's own and third-party platforms)</p> <p>A significant breach of security could impact the Group's ability to operate and deliver against its business objectives</p>	<p>The Group takes measures ranging from physical and logical access controls to encryption or equivalent technologies, raising employee awareness and monitoring of key partners to manage its security risks</p> <p>The Group continues to invest in new technological controls and in improving broader business process and works closely with law enforcement agencies and policy makers in order to protect its assets and to comply with its contractual obligations to third parties</p>

Description of risk	Mitigation
<p>Projects</p> <p>The Group invests in and delivers significant capital expenditure projects in order to continually drive the business forward. The level of the Group's capital expenditure has increased as a result of the increased size of the Group's business following completion of the acquisitions of Sky Deutschland and Sky Italia.</p> <p>The failure to deliver key projects effectively and efficiently could result in significantly increased project costs and impede our ability to execute our strategic plans.</p>	<p>A common project management methodology is used to enable the Group to manage, monitor and control its major capital expenditure projects and strategic programmes. This includes detailed reporting and regular reviews by senior management as well as cross-functional executive steering groups for major projects.</p> <p>Third-party partners will where appropriate be engaged to provide support and expertise in our large strategic programmes, complex initiatives and for emerging technologies.</p>
<p>Intellectual property protection</p> <p>The Group, in common with other service providers, relies on intellectual property and other proprietary rights, including in respect of programming content, which may not be adequately protected under current laws or which may be subject to unauthorised use.</p>	<p>We maintain an ongoing programme to support appropriate protections of our intellectual property and other rights. This includes, for example, the use of automated online monitoring tools, the implementation of on-screen imprinting of content together with an active programme to protect our intellectual property rights.</p>
<p>People</p> <p>People at Sky are critical to the Group's ability to meet the needs of its customers and achieve its goals as a business.</p> <p>Failure to attract or retain suitable employees across the business could limit the Group's ability to deliver its business plan commitments.</p>	<p>Making Sky a great place to work is central to the Group's strategy. The Group champions diversity and develops talent through a number of activities, including the Graduate programme, Development Studio, an apprenticeship scheme and a leadership programme.</p> <p>The Group has well established channels and procedures to recruit and retain its employees and to ensure that an adequate number of suitable employees work within its customer service teams and across all its operations.</p> <p>Further details on our people is set out in the Employees section of the Directors' Report on pages 71-72.</p>

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

European Commission investigation

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

Wholesale must-offer 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 Sky UK, amongst other things, to offer the Affected Channels on a wholesale basis to third parties which satisfy various minimum qualifying criteria.

In April 2010 Sky UK 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'), which was subsequently varied on 23 November 2010 and 12 November 2014. The effect of the Order, as varied, is that pending the outcome of Sky UK's substantive appeal, Sky UK is required to offer the Affected Channels to Virgin Media for distribution via DTT and cable to REAL Digital via DTH and to BT for distribution via DTT and BT's Internet Protocol Television ('IPTV') platforms, Cardinal and BT YouView. The CAT granted the November 2014 variation extending the WMO Obligations to BT's IPTV platforms subject to BT giving an undertaking that it would maintain the self-retailing of its sports channels (BT Sport 1, BT Sport 2 and ESPN) via Sky's DTH satellite platform until the final determination of the matters remitted to the CAT.

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

BT appealed the Pay TV Judgment to the Court of Appeal. On 17 February 2014 the Court of Appeal allowed BT's appeal, finding that Ofcom's decision contained a further competition concern in relation to Sky UK's rate card prices and discounts to those prices, and that the CAT should have considered that concern. It therefore remitted that issue to the CAT for further consideration. While the CAT's finding that Ofcom's core competition concern was unfounded remains undisturbed, the WMO Obligations (as modified by the Order as varied) continue in force pending the CAT's consideration of the further issue remitted to it. As yet there is no date set for the hearing of the remitted issue.

On 19 December 2014 Ofcom published a consultation as part of its review of the WMO Obligations announced in April 2014. This document represents the first phase of Ofcom's review, the purpose of which is to decide the extent to which the WMO Obligations remain appropriate or need to be modified or removed. Ofcom is consulting on its assessment of whether absent regulation providers of channels which carry key sports content might limit distribution to some pay TV retailers and whether that would undermine competition. At the time of the consultation Ofcom's view was that it might be appropriate to maintain some form of regulation on Sky UK in order to ensure fair and effective competition in pay TV, and that it would be unlikely to be appropriate to impose similar regulation on BT. Sky UK has responded to the consultation. On 27 July 2015 Ofcom published a supplementary consultation which seeks stakeholders' views on the extent to which an insistence by Sky on reciprocal supply of channels containing key sports content, as a condition of Sky's supply of its own key sports channels, may be a practice which is prejudicial to fair and effective competition. The closing date for responses to this supplementary consultation is 21 September 2015. Ofcom plans to set out the conclusions of its assessment from both consultations later in 2015 and where necessary to consult further on any proposed remedies.

The Group is currently unable to determine whether, and to what extent, the appeals concerning the WMO Obligations will be successful, nor is it able to determine the outcome of Ofcom's review of the WMO Obligations. It is therefore not possible for the Group to conclude on the financial impact of the outcome of the appeals or the consultation 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 Sky UK 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 alleged that Sky UK was making wholesale supply of Sky Sports 1 and 2 to BT for its YouView service conditional on BT wholesaling BT Sports channels to Sky UK for retail on Sky UK's satellite platform, and that constituted an abuse of dominance.

Ofcom's investigation of BT's complaint is still open.

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.

Virgin Media complaint to Ofcom concerning the 'collective' selling of live UK television rights by the Premier League

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

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

Competition law investigation into 2014 Serie A auction

In May 2015 the Italian competition authority the Autorità Garante della Concorrenza e del Mercato (AGCM) opened an investigation into the outcome of the June 2014 auction for broadcasting rights to Serie A football matches for the 2015-2018 seasons. The investigation is considering whether the Italian football league Lega Nazionale Professionisti Serie A, its advisor Infront Italy Srl and broadcasters Sky Italia Srl, Reti Televisive Italiane SpA and its subsidiary Mediaset Premium SpA entered into an anti-competitive agreement in relation to the award of the rights. The AGCM expects its investigation to be completed by 30 April 2016.

The Group is currently unable to determine the outcome of the AGCM'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 Group Chief Executive Officer.

By order of the Board

 Jeremy Darroch
 Group Chief Executive Officer
 28 July 2015

Forward looking statements

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

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

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

For more about the Board
sky.com/corporate

Nick Ferguson, CBE (66) Chairman

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

Skills and experience Nick brings extensive leadership experience from the private equity and investment sectors. He 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. He has a long standing interest in the arts and philanthropy and served as Chairman of the Courtauld Institute of Art for 10 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.

Jeremy Darroch (53) Group Chief Executive Officer

Appointed Jeremy joined Sky as Chief Financial Officer and Executive Director in 2004 and was appointed to his current role in December 2007. In November 2014 Jeremy was appointed Chairman of the Supervisory Board of Sky Deutschland AG.

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

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

Andrew Griffith (44) Group Chief Financial Officer

Appointed 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 November 2014 Andrew was appointed as a member of the Supervisory Board of Sky Deutschland AG.

Skills and 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. He is a qualified Chartered Accountant and has a Bachelor of Law degree from Nottingham University.

External Appointments In March 2014 Andrew was appointed Senior Independent Non-Executive Director of Just Eat plc where he also holds positions as Chairman of the Audit Committee and member of the Remuneration and Nominations Committees. He is a member of the 100 Group of Finance Directors and Advisory Board of the Oxford University Centre for Business Taxation.

Chase Carey (61) Non-Executive Director

Appointed January 2013

Skills and experience Chase has extensive knowledge and experience of the international media and pay TV sectors. He is former President and Chief Executive Officer of DirecTV where he led the operations and strategic direction of the DirecTV Group. Prior to joining DirecTV Chase was Co-Chief Operating Officer of News Corporation (subsequently renamed 21st Century Fox) and Chairman and Chief Executive Officer of the Fox Television Group. Until November 2014 he served as a member of the Supervisory Board of Sky Deutschland AG.

External Appointments Chase was the former President, Chief Operating Officer and Deputy Chairman of 21st Century Fox from 2009 to 2015. In June 2015 Chase was appointed as the Executive Vice Chairman of 21st Century Fox and will serve in this role through to June 2016.

Tracy Clarke (48) Independent Non-Executive Director

Appointed June 2012

Skills and 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. She has served as a Non-Executive Director of Standard Chartered First Bank in Korea from 2005 to 2007 and Non-Executive Director of Eaga plc from 2007 to 2011 where she chaired the Remuneration Committee.

External Appointments Tracy is a member of the Executive Management Group and is Director for Compliance People and Communications at Standard Chartered Bank. She 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.

David F DeVoe (68)

Non-Executive Director

Appointed December 1994

Skills and experience David brings a wealth of executive and finance experience from the media sector. He 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.

External Appointments David is Senior Advisor to the Board and Director of 21st Century Fox. He is also a former director of Gemstar TV Guide International Inc. serving from 2001 to 2008 and DirecTV from 2003 to 2008.

Martin Gilbert (60)
Senior Independent
Non-Executive Director
Appointed November 2011

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

External Appointments In addition to his role as Chief Executive Officer of Aberdeen Asset Management PLC, Martin is a member of the Scottish Government's Financial Services Advisory Board.

Adine Grate (54)
Independent Non-Executive Director
Appointed July 2013

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

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

Dave Lewis (50)
Independent Non-Executive Director
Appointed November 2012

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

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

James Murdoch (42)
Non-Executive Director
Appointed February 2003

Skills and experience James brings significant media sector knowledge and experience through his role at 21st Century Fox. He was formerly the Chief Executive Officer and Executive Director of Sky from 2003 to 2007 and he acted as Chairman from 2007 to 2012. James was Chairman and Chief Executive Officer of Star Group Limited and held Non-Executive Director roles at GlaxoSmithKline plc from 2009 to 2012 and Sotheby's from 2010 to 2012. He is a member (and former Chairman) of the Supervisory Board of Sky Deutschland AG.

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

Matthieu Pigasse (47)
Independent Non-Executive Director
Appointed November 2011

Skills and experience Matthieu brings significant knowledge of the European media sector and finance expertise to the Board. He is the Global Head for Mergers and Acquisitions and the Global Head for Sovereign Advisory for Lazard, also Chief Executive Officer of Lazard in France 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 personal interests in media and publishing, notably Le Monde and the Huffington Post (France). He is a Board member of Group Lucien Barrière SAS, an operator of luxury hotels and restaurants, Denchebourg, a recycling and maintenance services business.

Danny Rimer (44)
Independent Non-Executive Director
Appointed April 2008

Skills and experience Danny brings significant international investment and finance experience. He has extensive 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 First Dibs Inc., Flipboard Inc., Nasty Gal Inc., RightScale Inc., Viagogo, Farfetch.com Limited, Good Eggs and Patreon. He resigned from Grupo Xango Technologies in April 2011 and Etsy Inc. in March 2015.

Arthur Siskind (76)
Non-Executive Director
Appointed November 1991

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

External Appointments Arthur is Senior Advisor to the Chairman of 21st Century Fox from January 2005 to December 2014 and he has served as Director Emeritus from October 2012 to November 2014.

Andy Sukawaty (60)
Independent Non-Executive Director
Appointed June 2013

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

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

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.

I am pleased to report that your Company complied in full with the UK Corporate Governance Code (the Code) as revised in September 2012 during the year under review. We are also reviewing the changes to the Code which were introduced in October 2014, which apply to the Company from 1 July 2015.

It has been a transformational year for the Company following the acquisitions of the Sky businesses in Germany and Italy. Much of the Board's activity has been around ensuring that the acquisitions successfully completed and positioned the business for the next stage in its development.

This year we undertook an internal Board evaluation and I met with all the Directors and discussed a range of topics. The feedback from the evaluation confirmed that the Board and each of its Committees continue to operate effectively and that each Director continues to make an effective contribution and retains a strong commitment to their role. The resulting findings of the evaluation are discussed on page 49.

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 47. As a result of this, the Board considers the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

During the year we have continued our work in promoting greater and more effective engagement with our shareholders. I, along with the Executive Directors, meet our investors and analysts and discuss a wide range of topics. Tracy Clarke, Chairman of the Remuneration Committee, has also engaged with shareholders on remuneration issues and will continue to do so over the course of the coming financial year.

Nick Ferguson CBE
Chairman

Compliance with the Code

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 2015. This section of the Annual Report along with the Directors' remuneration report on pages 51 to 69, the Directors' report and other statutory disclosures on pages 70 to 77 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 38 and 39.

Roles and responsibilities

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

The Chairman

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 Group Chief Executive Officer (Group CEO)

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

Senior Independent Non-Executive Director (SiD)

The role of the SiD is currently carried out by Martin Gilbert who succeeded Andy Higginson on 21 November 2014. Martin is responsible for providing support to the Chairman and provides an additional point of contact for shareholders.

Non-Executive Directors

Chase Carey Tracy Clarke David DeVoe Martin Gilbert Adine Grate 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

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

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

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

Environment supportive of challenge

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

Board Agenda

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

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

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

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 sky.com/corporate/about-sky/corporate-governance

Board and Committee framework

The Audit Committee has responsibility for oversight of corporate reporting risk management and the Company's relationship with its auditor 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 32 to 35 For further details the Audit Committee Report can be found on pages 45 to 48

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 51 to 69

The Corporate Governance & Nominations Committee is responsible for oversight of the structure size composition and succession planning of the Board and its Committees and overall compliance with corporate governance standards The Report of the Corporate Governance & Nominations Committee can be found on pages 48 and 49

The Bigger Picture Committee has responsibility for oversight of the social environmental and ethical impacts of the Company's activities The report of the Bigger Picture Committee can be found on page 50

The minutes of Committee meetings are made available to all Board Directors on a timely basis At each Board meeting the Chairman of each Committee provides the Board with a brief update of the work currently being carried out by the Committee they chair Other sub-committees and steering groups provide additional resource and support to the Board Committees or are formed for specific tasks A Committee of senior management generally meets on a weekly basis to allow prompt discussion of relevant business issues The Committee comprises the Group CEO Group Chief Financial Officer (Group 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.

	Board	Audit	Remuneration	Corporate Governance & Nominations	Bigger Picture
Number of meetings held in year	7	6	5	3	2
Executive Directors					
Jeremy Darroch, Group CEO	7/7				
Andrew Giffiths, Group CFO	7/7				
Non-Executive Directors					
Chase Carey	7/7				
Tracy Clarke	7/7		5/5		2/2
David DeVoe	7/7				
Nick Ferguson	7/7		5/5	3/3	
Martin Gilbert ¹	7/7	6/6	0/1	2/2	
Adine Grate ²	6/7	6/6	4/4		
Andy Higginson ³	3/4	2/3		1/1	
Dave Lewis	7/7	6/6		3/3	2/2
James Murdoch	7/7				2/2
Matthieu Pigasse ³	4/7	6/6			
Danny Rimer ³	4/7				
Arthur Siskind ³	6/7			2/3	
Andy Sukawaty ³	7/7		4/5		

Notes

1. Martin Gilbert replaced Andy Higginson as member of the Governance & Nominations Committee following Andy's retirement at the AGM on 21 November 2014.

2. Adine Grate was appointed as a member of the Remuneration Committee replacing Martin Gilbert with effect from 25 July 2014.

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

Acquisition of Sky Deutschland and Sky Italia

During the prior year the Board appointed a committee to investigate, consider and evaluate the overall strategy in connection with the proposal to acquire Sky Deutschland and Sky Italia. The committee comprised all members of the Board other than any Directors who were not independent of 21st Century Fox, Inc. or had a conflict of interest. The committee met on two occasions during the year and formally approved the transaction.

Effectiveness

Board composition and independence

The Board currently comprises 14 Directors, made up of two Executive Directors and 12 Non-Executive Directors. At least half of the Board of Directors are determined to be independent by the Board in accordance with provision B.1.2 of the Code. On appointment, the Chairman met the independence criteria set out in provision B.1.1 of the Code. Biographies of each of the Directors are set out on pages 38 and 39.

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

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 48 and 49.

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

The Board has published a statement of its intention to increase female representation on the Board which can be found on the Company's corporate website sky.com/corporate. As required by company legislation, a table on page 71 illustrates gender diversity amongst the Board.

Diversity ratio of Directors appointed in past three years

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 Griffith was appointed as an Independent Non-Executive Director of Just Eat plc on 12 March 2014. Andrew serves as Senior Independent Director, Chairman of the Audit Committee and is a member of the Remuneration & Nominations Committees. Details of pay in respect of these appointments can be found in the Directors' remuneration report on page 68.

Time commitment

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

Induction and training

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

An example of a tailored induction programme is detailed below:

Meetings with Senior Executives	Customer contact	Product demonstrations	Accompanied a Sky engineer on customer visits
Sky News and Sky Studio visits	centre visit		

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

Board evaluation

In line with the Code and following the external Board evaluation carried out by Alice Perkins of JCA Group in 2013, an internal Board evaluation has been carried out for the past two years.

During the period under review, the process was facilitated by Nick Ferguson. Further details of the evaluation process can be found in the Corporate Governance & Nominations Committee report on pages 48 and 49.

Length of time served on the Board

Industry/Background experience¹

Notes

¹ Directors may fall into one or more categories

Directors' appointment and 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 2015 AGM, with the exception of David DeVoe, Danny Rimer and Arthur Siskind who have decided not to seek reappointment this year and will step down from the Board at the conclusion of the AGM. Immediately following the AGM, it is intended that John Nallen, Chief Financial Officer of 21st Century Fox, will be appointed by the Board as a Non-Executive Director. As a result of these proposed changes, the size of the Board would reduce from 14 to 12 Directors and at least half of the Board (excluding the Chairman) would continue to be comprised of Independent Non-Executive Directors in compliance with the Code.

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 Group CEO.

Conflicts of interest

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

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

Directors' and Officers' Insurance and Indemnity

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

Relations with shareholders

Shareholder communications

Presentations and webcasts on the development of the business are available to all shareholders on the Company's corporate website. The Company also uses email alerts and actively promotes downloading of all reports, enhancing speed and equality of shareholder communication. The Company has taken full advantage of the provisions within the Companies Act 2006 allowing the website to be used as the primary means of communication with shareholders where they have not requested hard copy documentation. The shareholder information section on page 147 contains further details on electronic shareholder communications together with more general information of interest to shareholders which is also included on the Company's corporate website sky.com/corporate.

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, Group CEO and Group CFO have attended meetings with investors as appropriate. The Company also makes presentations to analysts and investors around the time of the half-year and full-year results announcement. Conference calls are held with analysts and investors following the release of the first quarter and third quarter trading statements and presentations are made during the year to many existing or potential shareholders at investor conferences. The Company hosts an annual meeting for its major shareholders to discuss remuneration.

The AGM

The Board views the AGM as an opportunity to communicate with private investors and sets aside time at the meeting for shareholders to ask questions. At the AGM, the Chairman provides a brief summary of the Company's activities for the previous year. All resolutions at the 2014 AGM were voted by way of a poll. This follows best practice and allows the Company to count all votes rather than just those of shareholders attending the meeting. As recommended by the Code, all resolutions were voted separately and the final voting results, which included all votes cast for, against and those withheld together with all proxies lodged prior to the meeting, were released to the London Stock Exchange as soon as practicable after the meeting. The announcement was also made available on the Company's corporate website. As in previous years, the proxy form and the announcement of the voting results made it clear that a vote withheld is not a vote in law and will not be counted in the calculation of the proportion of the votes for or against the resolution.

Report of the Audit Committee

Chairman's overview

During the year the Audit Committee has continued to play a key oversight role on behalf of the Board. The Committee's principal activities have focused on the financial performance of the Company, internal audit, external audit, risk management, compliance and governance. We reviewed the impact of the acquisitions of the Sky businesses in Germany and Italy on the 2014/15 external and internal audit plans and the evolution of financial reporting under the new structure.

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

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

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 had a meeting with the Company's external auditors without management present.

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
Dave Lewis
Matthieu Pigasse

Andy Higginson, a former Chair of the Committee, stepped down as a member of the Committee in November 2014 following his retirement as a Director.

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 Group CFO, other business and finance executives and representatives from the external auditor, Deloitte LLP, and the internal audit department attend meetings at the request of the Committee. The Company Secretary acts as Secretary to the Committee.

Audit Committee Agenda

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

- Review and recommendation to the Board of the quarterly interim and full-year financial statements
- Quarterly updates from the Group CFO on business performance across the Group
- Audit plans and findings of external and internal audits
 - The review and recommendation to the Board of the dividend policy and proposed payments
- Liquidity and going concern review
 - Annual reporting due diligence procedures and corporate governance updates
- The impact of the acquisitions of Sky Deutschland and Sky Italia on the 2014/15 External Audit plan
- Assessment of the effectiveness of the external audit process and scope of audit
- Auditor independence and the policy on the provision of non-audit services by the external auditor
- Quarterly review of non-audit services and fees
- Quarterly reports from the treasury function on the funding, liquidity, going concern and operational capabilities of the Group and compliance with treasury policies
- Quarterly updates on planned internal audit work and on the status of Senior Accounting Officer (SAO) certification work to ensure SAO compliance
- Quarterly reports of all transactions with a related party during the period in excess of £100,000 in value
- Review of all transactions which fall within the Listing Rule 11.15R definition of Related Party Transaction and all transactions with a related party in excess of £10 million and where required recommendation to the Board
- Review and oversight of the Group risk register, risk methodology and risk management systems and processes
- Monitoring and reviewing the effectiveness of the Group's internal audit function and controls
- Taxation, security, fraud, health and safety and data protection

Sky Deutschland's related party transactions are approved by the supervisory board in accordance with German law. Once the purchase of the remaining minority interests in Sky Deutschland has concluded, Sky Deutschland will be subject to the same approval process as UK and Italy.

Corporate governance report (continued)

Significant accounting issues

When considering the annual financial statements the Committee reviewed the significant accounting issues and the Group's critical accounting policies as set out on pages 32 to 35 with particular focus on the following

Retail subscription revenue

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

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

General entertainment programming inventory

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

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

Capitalisation of intangible and tangible non-current assets

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

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

Accounting for acquisitions

The Committee reviewed management's accounting for the acquisitions of Sky Deutschland and Sky Italia, including determination of the fair values of assets and liabilities acquired and of the consideration paid, and alignment of accounting policies across the Group, which require significant estimation and judgement. The Committee considered the views of the external auditor and received a presentation from management explaining the evolution of the Group's financial reporting to incorporate the acquired entities into the enlarged group.

The Committee is satisfied that the Group has followed the applicable accounting requirements in accounting for the acquisitions and that accounting policies across the Group have been appropriately aligned.

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 2015 and up to the date on which the financial statements were approved. This review relates to the Company and its subsidiaries and does not extend to joint ventures. The Committee meets on at least a quarterly basis with the Group's Director, Audit, Risk Management and Compliance and the external auditor.

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

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

Changes in internal controls

No change in the Group's internal control over financial reporting has occurred in the UK during the year ended 30 June 2015 that has materially affected, or is reasonably likely to materially affect, the Group's internal control over financial reporting. During the year the Group acquired Sky Deutschland and Sky Italia which introduced additional complexity to financial reporting. Since the operating model and business operations of the acquired entities are similar to those of the existing Group, the controls over financial reporting remain materially consistent.

Risk registers

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

The business develops the action plans and the internal audit team monitors their implementation. The Committee formally reviews the Group Risk Register twice a year and senior executives from the business present their risk management plans from time to time.

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 32 to 35

Fair, balanced and understandable assessment

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

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 Group CEO and Group CFO, as appropriate to allow timely decisions regarding required disclosures.

Auditor independence

During the year ended 30 June 2015, the Committee reviewed audit independence and scope of non-audit services and independence safeguards with Deloitte LLP (Deloitte), the Group's external auditor.

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

The Committee was satisfied throughout the year that the objectivity and independence of Deloitte was not in any way impaired by either the nature of the non-audit related services undertaken during the year, the level of non-audit fees charged, or any other facts or circumstances. A key aspect of this year's consideration was the effect of the acquisitions of Sky Deutschland and Sky Italia.

- These acquisitions were both defined as Class One transactions under the London Listing Rules. To support the transaction, facilitate regulatory reporting and the raising of the necessary finance, the Committee approved due diligence services by KPMG, the auditors of Sky Deutschland, and reporting accountant services from Ernst & Young (EY), the auditors of Sky Italia, and reporting accountant and other transaction support and advisory services from Sky plc's own auditors, Deloitte. The committee was satisfied appropriate safeguards had been implemented in this regard.
- Deloitte network firms in Germany and Italy had been selected to provide consulting and other services to Sky Deutschland and Sky Italia prior to their acquisition by Sky. In order to ensure an orderly reduction in, and to reduce transition risk, the Committee approved the continuation of services by Deloitte until individual activities were rescope'd or completed, taken on by Sky personnel or other vendors commissioned. All necessary adjustments to scope to ensure auditor independence were made within the six month period permitted under the relevant professional standards, which envisage circumstances such as these. The auditors considered the need for additional safeguards and satisfied the Committee that they had implemented these appropriately. The safeguards considered by the committee included the continuation of the use of KPMG and EY for the year ended 30 June 2015 as auditors of Sky Deutschland and Sky Italia. A certain level of permitted consulting

advisory services on these strategic projects has been approved by the Committee to be provided by Deloitte in the financial year 2015/16 to ensure an appropriate level of project advisory continuity and these services are planned to substantially cease by the end of that year in line with the implementation of the EU audit regulation.

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

Audit and non-audit services

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

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

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

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

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

Effectiveness of external audit 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
- The quality of planning and supervision of the group audit
- Quality of reporting and communications to the Audit Committee

The responses to the assessment were discussed, which confirmed that Deloitte are performing as expected. Deloitte continue to demonstrate strengths in the majority of these areas. There were no significant findings from the assessment and the review confirmed that Deloitte continue to carry out an effective and robust external audit, including the supervision of the enlarged group audit. The Committee also continues to be satisfied with the quality of challenge and scepticism of the external auditor. The Committee therefore recommended to the Board that shareholder approval be sought to reappoint Deloitte as the external auditor and has also recommended that Deloitte be appointed auditors of Sky Deutschland and Sky Italia for the 2015/16 financial year.

Corporate governance report (continued)

Audit partner rotation

The external auditor is required to rotate the audit partner responsible for the engagement every five years. As reported previously the current audit partner rotates after the 2014/15 audit. The partner was shadowed by a successor audit partner throughout the year after a selection process to ensure the development of thorough knowledge of the enlarged group and to safeguard challenge and objectivity. The incoming audit partner will be required to rotate after the 2019/20 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 in advance of June 2020 which itself is in advance of 2023 by which the transitional rules in UK and EU regulation would require the Company to have performed a tender.

The Committee considered the merits of conducting an audit tender process this year however in light of the significant enlargement in the size and scale of the Group following the acquisitions of Sky Deutschland and Sky Italia – and the significant internal time and effort devoted to establishing common financial controls and processes as a result – it was decided that for now shareholders' interests would best be served by focusing on the integration of the enlarged Group including the consolidation of the Group audit with a single firm. The Committee will continue to keep the timing of a future tender under annual review.

Corporate Governance & Nominations Committee

Chairman's overview

Following the retirement of Andy Higginson as a Non-Executive Director, Senior Independent Director and Chairman of this Committee at the Company's 2014 AGM in November I am pleased to confirm that Martin Gilbert replaced Andy as Senior Independent Director and was appointed as a member of this Committee. I succeeded Andy as Chairman of the Committee and all of these changes were effective from 21 November 2014.

Over the past three years a number of new Independent Non-Executive Directors have been appointed to the Board and it was very encouraging that one of the findings of this year's internal Board evaluation was that these new Directors have bedded down well and had strengthened the diversity of the Board. The findings of the evaluation also 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 to adapt to corporate governance changes, address gender balance on the Board, source the right skills to complement our talented management team and create 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.

Nick Ferguson
Committee Chairman

Committee composition
Nick Ferguson (Chairman)
Dave Lewis
Arthur Siskind
Martin Gilbert

Andy Higginson stepped down as a member of the Committee in November 2014 following his retirement as a Director.

Attendance at Committee Meetings

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

Corporate Governance & Nominations Committee Agenda

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

- Board 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

The Committee keeps the Board's balance of skills, knowledge and experience and the length of service of individuals under constant review. In respect of succession planning and supplementing the skill set of the Board, the Committee is responsible for the identification, evaluation and recommendation of candidates for appointment to the Board. There has been a formal process in place for a number of years and all of the current Independent Non-Executive Directors have been through the same selection process.

This process involves the Committee working with the Executive Directors and the wider Board to identify and agree the criteria for the appointment of any new independent Non-Executive director to the Board. Once agreed, the Chairman of the Committee engages with and briefs an external recruitment consultancy. The external recruitment consultancy is asked to draw up a list of potential candidates for the Committee to review. The Committee considers the list of potential candidates and agrees a shortlist for interview by the Chairman, Group CEO and other members of the Committee and Board as appropriate. Subject to agreement by the Committee, the Committee then recommends the proposed appointee to the Board for consideration.

Committee composition

During the year, the Committee reviewed the composition of all Committees. 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. Following Andy Higginson's retirement at the Company's 2014 AGM, it was agreed that Martin Gilbert be appointed as SID on 21 November 2014. Martin replaced Andy as a member of the Corporate Governance & Nominations Committee on the same date. Nick Ferguson was identified as a suitable successor as Chairman of the Corporate Governance & Nominations Committee and he succeeded Andy Higginson on 21 November 2014.

Board evaluation

The Board undertakes an annual review of its effectiveness and at least once every three years an independent third party facilitates the evaluation. During the year, the Chairman of the Committee conducted an internal evaluation and scheduled time with each Director 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 evaluation of the performance of the Chairman was led by the Senior Independent Director. The Chairman of the Committee reported the findings of the evaluation to the Committee and the Board.

The overall conclusion was that individual Board members are satisfied that the Board works well and operates effectively in an environment where there is constructive challenge from the Non-Executive Directors. The Directors were satisfied with the current mix of skills and experience on the Board and that the composition of the Board and its Committees had been adequately reviewed during the year. A number of new independent Non-Executive directors have joined the Board since 2011 and they have complemented the existing Board members and contributed well to Boardroom debate, offered alternative viewpoints and challenged perceptions.

The quality of information presented to the Board was of a high standard and distributed on a timely basis. There was a good balance of focus between strategy, the competitive marketplace, operations and governance within Board meetings.

It is the intention of the Board to undertake an externally facilitated evaluation during the 2015/16 financial year in line with the Code.

Independence

During the year, all Non-Executive Directors were asked to complete questionnaires to enable the Committee to determine their independence. The Committee reviewed the questionnaires and recommended to the Board that there be no changes to the independent status of the current Independent Non-Executive Directors. The Non-Executive Directors who are considered by the Board to be independent are clearly identified on page 42.

As noted on page 42, 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 that each of these directors continue to make a significant contribution to Board and Committee discussions.

Directors' conflicts

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

Relationship Agreement

Changes to the listing rules came into effect in November 2014 which require a premium listed company which has one or more controlling shareholders to have in place an agreement which is intended to ensure that any controlling shareholder complies with the independence provisions in the Listing Rules (see page 70). The Committee engaged external counsel to assist with negotiating a relationship agreement with our controlling shareholder, 21st Century Fox Inc, which was subsequently entered into by the Company on 13 November 2014.

Corporate governance report (continued)

Bigger Picture Committee

Chairman's overview

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

I am pleased to report that there has been significant progress across the Bigger Picture initiatives in the UK and Ireland from building the reach impact and awareness of Sky Academy to the continued success of Team Sky and the Company's approach to responsible business

Sky's commitment has been recognised through its strong performance in a number of investor indices during the year including the Carbon Disclosure Project and the Dow Jones Sustainability Index

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

Progress against all of the Bigger Picture commitments and initiatives is detailed at sky.com/biggerpicture

James Murdoch
Committee Chairman

Composition of the Committee
James Murdoch (Chairman)
Tracy Clarke
Dave Lewis

Attendance at Committee Meetings
The Group CEO, Group 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 progress on Sky Academy
- The impact of our partnership with British Cycling and Team Sky
- Progress as detailed in Sky's Bigger Picture reporting

Activities during the year

The Committee oversaw a number of key developments in relation to Sky's Bigger Picture initiatives, notably progress towards our target to help one million young people build practical skills and experience through Sky Academy in the UK and Ireland

Sky Academy is a set of initiatives using the power of TV creativity and sport to unlock the potential in young people. In addition to the ongoing success of the Sky Sports Living for Sport, Sky Academy Skills Studios, Sky Academy Scholarships and Sky Academy Starting Out, the Committee oversaw the development of the new Sky Academy Careers Lab at Sky's West London campus which will see at least 4,000 young people aged 16-19 visit Sky each year to gain career insights and build employability skills. During the year we also launched an additional Sky Academy Skills Studio at our Livingston site in Scotland which is providing opportunities for another 12,000 young people in Scotland to take part. In addition to the 12,000 in West London each year, both initiatives have provided more opportunities for Sky staff to get involved in Sky Academy through volunteering and we saw a 43% increase in volunteering this year.

The opening of Sky Academy Careers Lab supports the Committee's view that the Sky Academy experiences should be providing insight into the diversity of roles for young people at Sky. The Committee noted the increase in career opportunities for young people through Sky Academy Starting Out with 1,100 places across its apprenticeship, graduate placement and work experience programmes in 2014/15, up from almost 600 in 2013/14, which is on track against the commitment to double the number of career opportunities available for young people within Sky in three years.

Over the year, the Committee reviewed the achievements of Sky Academy in working towards its targets for increasing participation, impact and awareness. Of note has been the doubling of customer awareness of Sky Academy along with the tripling of prospect awareness over the year.

Through the partnership with British Cycling, the Committee noted that over 1.7 million more people are now cycling at least once a month when compared to 2009. The Committee also noted the role of Team Sky in using the inspiration of elite success to drive participation. In addition, the Committee was informed of the Team Sky objectives to strengthen the focus on Grand Tour performance and build fan engagement as we move into the last 18 months of the partnership with British Cycling.

Through its review of the Bigger Picture reporting, the Committee noted the overall progress against Sky's commitments, including in relation to the Company's approach to responsible business. The recommendations the Committee made to improve the communication of progress have been incorporated for the 2014/15 year.

Overall, the Committee continued to note the positive economic, social and environmental contribution of Sky. For more information about Sky's approach and progress over the year, go to sky.com/biggerpicture.

Directors' remuneration report

Annual statement from the Chairman

Dear Shareholder

On behalf of the Board I am pleased to present our Directors Remuneration Report for the year ended 30 June 2015

Context and business performance

This has been a transformational year for Sky. By acquiring the Sky businesses in Germany and Italy we have opened up a significant new growth opportunity whilst continuing to deliver excellent financial and operational performance. There has been strong growth across all our markets, particularly in the UK and Ireland, and we have increased the dividend to our shareholders by 3%. This represents the 11th consecutive year of dividend growth, an excellent record by any measure.

These results are particularly strong considering the level of change in the business. Group revenue is up 5% year on year and operating profit up by 18%. In the UK and Ireland we achieved the highest organic customer growth in 11 years, while in Germany and Austria we delivered record customer growth and in Italy we held our customer base stable after three years of decline. In total we added almost one million new customers across our five territories, 45% more than in the prior year, to take our customer base past the 21-million mark. At the same time, we increased our paid-for subscription products by 4.6 million for the year and saw a significant increase in customer loyalty with churn under 10% in each of our markets. Against this backdrop of excellent performance, the business has a strong platform on which to build and a clear set of plans to deliver long-term growth and returns for shareholders.

The long-term sustainability and success of our business is based on a relentless focus on our key drivers for growth. Our remuneration policy directly links pay to the achievement of stretching performance targets which drive our strategy as set out on page 4. This principle of linking pay to stretch performance has remained unchanged over the past six years and has helped to maintain the stability and focus of the senior team to deliver outstanding value to our shareholders. The Committee ensures that the performance measures selected in its incentive plans reflect the key performance indicators of the business and thereby provide a direct link to Sky's strategic aims. Having considered other performance measures, the Committee is comfortable that the current measures and their inclusion across all three incentive plans ensures the right link to our strategic KPIs and the proper focus on these results over both the short and long term.

Last year the Committee introduced a number of changes to our remuneration policy which were well received by our shareholders, including the introduction of a cap on annual Long Term Incentive Plan awards, a minimum shareholding requirement for Executive Directors, a formal policy on malus, and more explanation and disclosure on performance outcomes.

The continued support of our shareholders is extremely important to us. The Committee intends to review its position on clawback with a view to introducing suitable provisions for our business alongside our existing policy on malus over the course of the next year. The Committee revisited the topic of disclosure this year, specifically the degree to which it deems the disclosure of performance targets to be commercially sensitive and the timing of disclosure.

Disclosure of performance targets

Our targets, which include significant fixed costs relating to rights deals, are commercially sensitive. We operate in a highly competitive market, both in acquiring customers and bidding for key rights, with a discrete number of players, and a number of our direct competitors do not disclose their targets.

Nevertheless, the Committee acknowledges investor concerns and has decided to disclose the targets for the 2013 annual bonus and LTIP vesting a year earlier than we anticipated in the Remuneration Report last year. We continue to disclose performance ranges in advance for EPS growth for the Co-Investment Plan and relative TSR performance for the Long Term Incentive Plan. The Committee will continue to use its judgement at the end of each year to determine levels and timing of disclosure.

In addition, the Committee has also provided greater clarity on pay and performance outcomes for the 2015 bonus payment and Long Term Incentive Plan vesting. A clearer chart and more detailed commentary on performance are provided on pages 53 to 55.

Impact of the acquisition of Sky Deutschland and Sky Italia

Following the completion of the acquisitions of Sky Deutschland and Sky Italia in November 2014, the Committee considered whether any changes to executive remuneration were required. Notwithstanding the new international and enlarged responsibilities of both Executive Directors as a result of this transaction, the Committee decided that existing compensation arrangements were appropriate.

In respect of our multi-year incentive plans that span the transaction period, the Committee made no change to the required performance targets but resolved that to avoid any distortive effect from the transaction, measurement would be made on a like-for-like basis, restating either to a UK & Ireland only basis or to a pro forma basis for the transaction and disposal of Sky Bet, depending upon when the plans commenced. Targets for all new plans that commence post-completion are on the basis of the enlarged Group.

Full details of all targets and the actual performance against these will be disclosed in alignment with our policy on disclosure.

Pay and performance outcomes for 2015

Performance across the Group has been excellent and reinforces that our approach to incentivisation continues to work, our management team is delivering the right outcomes for the business and Sky's shareholders. It is against this great set of results that the Committee has decided the remuneration for its Executive Directors.

Directors' remuneration report – Annual statement from the Chairman (continued)

Annual bonus

Each year the Committee considers the business plan and priorities in setting one clear ambitious stretch target for each chosen measure of performance. The key measures that drive our business plan are product growth, operating profit and operating cash flow. Payments earned under this plan are determined by the performance achieved under each of the three measures and the bonus is structured such that there would be a material impact on the annual bonus for underperformance. There is also no additional payment for performance beyond the stretch targets.

Operational performance across the Group has been excellent. This was led by the outstanding performance of the UK and Ireland business which delivered our strongest customer growth for 11 years. Paid-for product growth for the UK and Ireland was 3.3 million, significantly ahead of stretch target.

This strong trading performance combined with a continued focus on operational efficiency and cost control delivered an adjusted operating profit to £1.4 billion in the UK and Ireland ahead of target. Operating cash flow, which is an important indicator of the financial health of the business and its ability to sustain and grow its operations, was ahead of target at £1.4 billion.

As a result of the excellent performance this year and in accordance with the rules of the scheme, the Remuneration Committee approved maximum bonus awards of 200% and 150% for the Group CEO and Group CFO respectively for this performance year.

Long Term Incentive Plan

The business has delivered a remarkable period of sustained performance during the three-year period of this Plan 2012 to 2015. All three of the operational measures – revenue growth, operating cash flow and growth in earnings per share – were exceeded with revenue growth in the UK and Ireland of 17%, earnings in the UK and Ireland up by 33% and an average annual operating cash flow in the UK and Ireland of £1.4 billion. Therefore this part of the Plan will pay out in full. However, the part of the Plan based on relative TSR performance will pay out at 75.9%. The total overall vesting is therefore 93%.

This consistently strong company performance has delivered excellent returns for our shareholders and the Board has proposed a 3% increase in the dividend to 32.8p which is the 11th consecutive year of growth.

A significant element of the value delivered to Executive Directors by this Plan is a direct consequence of the increase in the share price over the three-year performance period. Our approach to awarding a fixed number of shares each year with no correlation to salary means that year-on-year growth in total remuneration can only be achieved through share price appreciation, particularly when stretch performance targets are being met. This construct delivers strong shareholder alignment. By awarding an absolute number of shares as opposed to a percentage of salary, management benefit when the share price increases but are exposed if the share price declines. In addition, vesting occurs only every two years which helps to ensure that the management team brings a longer-term focus to the business. This year is a vesting year so it is important to remember that the LTIP payment this year represents two separate years of grants, not one. This causes a spike in total pay every other year and distorts the single figure remuneration shown on page 57, as there will be no LTIP payment next year, total remuneration will be significantly reduced in 2016. The next LTIP vesting will be in July 2017.

Co-investment Plan

This is a highly successful plan for our most senior managers. It encourages them to reinvest their earned bonus into Company shares and therefore the future of our business. Vesting is deferred for three years and dependent on EPS growth, underpinning alignment to shareholders' interests. Our Executive Directors reinvested the maximum 50% of their annual bonus in the 2012 Plan. Over this three-year period the growth in earnings per share in the UK and Ireland of 33% was in excess of the maximum vesting threshold and the matching shares therefore vest in full. Details are provided on page 53.

Remuneration in 2015/16

The Committee follows a policy of maintaining lower levels of fixed pay relative to the market. We are confident that the structure of a high ratio of variable to fixed pay continues to provide a strong link between pay and performance and delivers high returns for our shareholders. So looking ahead to the new financial year 2015/16, while the level of personal achievement delivered by the Executive Directors would allow for greater increases under the all employee salary review policy, the Committee has made modest adjustments to the base salaries of the Group CEO and Group CFO of 3% effective 1 July 2015.

Long Term Incentive Plan awards of 600,000 for the Group CEO and 350,000 for the Group CFO are maintained at the same level as was previously agreed last year and in line with our policy.

The performance measures for the annual bonus, LTIP and Co-investment Plan also remain unchanged.

The Committee considered whether the acquisitions made during the year might lead to a change in the long-term incentive arrangements. After careful reflection, the Committee determined that the LTIP and Co-investment Plan, which are both key elements of the total remuneration for the broader management team of Sky plc, has been successful in driving performance, incentivising management and delivering shareholder returns. The Committee continues to keep all elements of the remuneration policy and structure under review to ensure it drives the performance of the business and therefore the interests of the shareholders.

Tracy Clarke
Committee Chairman

Directors' remuneration report

Annual Remuneration Implementation Report

This section sets out how our remuneration policy was implemented during the year ended 30 June 2015 and how it will be implemented for the coming year. It also sets out the link between Company performance and Executive Directors' remuneration, the context in which our policy operates, details on our Executive Directors' shareholdings and the general governance of Directors' remuneration. The remuneration policy is summarised on page 64 to 69 and available to read in full in our 2014 Annual Report which can be accessed via our corporate website at sky.com/corporate.

Variable pay outcomes for the year ended 30 June 2015

As shown on pages 13 to 15, the business has delivered another year of exceptional operating and financial performance in what has been a transformational year for Sky. All measures for the plans operating in the year ended 30 June 2015, and described in this section, are for the UK and Ireland.

Annual bonus for 2015 performance

The annual bonus drives the achievement of annual financial and operational business goals. The plan for 2015 for Executive Directors and senior executives was based on three equally weighted measures which were identified by the Committee as being key indicators of performance driving growth for our business and returns to our shareholders:

- Paid for Products Growth
- Adjusted Operating Profit
- Adjusted Operating Cash Flow

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

This year we have provided greater clarity 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. Payments are earned in direct correlation to performance achieved. Performance against these key targets is described below:

- **Paid for Products Growth:** In the UK and Ireland we saw our strongest operational performance for many years, with exceptional product growth in the UK of +3.3 million which significantly exceeded the stretch target, underpinned by our continued focus on customer quality and our investment in productivity improvements which drove robust growth in both new customer additions and paid-for product sales in a highly competitive market. Increased customer loyalty and satisfaction is also reflected in a significant reduction in our churn rate.
- **Adjusted Operating Profit:** Strong revenue growth and a successful operational efficiency programme resulted in an operating profit of £1.35 billion which was ahead of stretch target.

- **Adjusted Operating Cash Flow:** This is a key measure of the underlying health of the business, and strong performance of £1.41 billion ahead of stretch target continues to support our growth strategy.

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

Annual bonus metrics

Performance measure	Weighting	Performance	Achievement against performance measures
UK and Ireland paid-for products growth	33%	+3.3m	Significant out-performance
UK and Ireland operating profit	33%	£1.350m	Out performance
UK and Ireland operating cash flow	33%	£1.414m	Strong out-performance

The Committee judges that immediate retrospective 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 2012-2015

Under the terms of the CIP offered on 28 August 2012 for the performance period 1 July 2012 to 30 June 2015, Executive Directors voluntarily deferred 50% of their earned 2012 bonus into investment shares which were then matched by the Company up to 15 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 UK and Ireland basic EPS growth rate of 10% per year over the three-year period exceeds the threshold for maximum vesting. The Committee has agreed that the matching shares under the 2012 CIP will vest in full on 28 August 2015.

Vesting of shares under the Executive Long Term Incentive Plan 2012-2015

The vesting of awards made in 2012 and 2013 for the performance period 1 July 2012 to 30 June 2015 was dependent on operational performance measures which determined 70% of the award, and TSR the remaining 30%.

Directors' remuneration report – Annual Remuneration Implementation Report (continued)

The three equally weighted operational performance measures each of which is a key indicator of Skys continued success were

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

Points were 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 10 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 10 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

Annual Performance Measures are shown in 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

As with the annual bonus the committee will make full retrospective disclosure when the targets are deemed to be no longer commercially sensitive which is anticipated to be two years after the end of the performance period. However the commentary and performance chart below aims to provide greater transparency and clarity for our shareholders

As with the bonus performance measures the committee made careful consideration of consensus analyst forecasts and the business plan before setting what it believed to be stretching performance targets. Payments are earned in direct correlation to performance achieved and performance against each target is described below

- **Revenue growth** revenue has increased by 17% over the period in UK and Ireland which is in excess of the performance target representing excellent growth and strong momentum for the future
- **Operating cash flow** A key measure of the underlying health of the business and the ability of the management team to sustain and grow its operations. Average annual operating cash flow in the UK and Ireland of £1.4 billion was in excess of target
- **EPS growth** 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 absolute growth in earnings of 26% over three years if RPI is 3% a year. This level of growth in earnings was set at a level which exceeded consensus research analysts estimates at the time. Actual growth in earnings per share over the three-year period was 10% with average RPI over the period of the scheme of 2.3% p a. This element of the plan vests in full reflecting the value generated for our shareholders over this period

The actual points awarded for the period are

Actual points awarded		
Average EPS growth	Operating cash flow	Revenue growth
Actual points awarded	Actual points awarded	Actual points awarded
10.00	10.00	10.00

The total of 30.00 is well ahead of the 21 points required for full vesting of this element of the award which comprises 70% of the total

Despite excellent share price growth and a consistent dividend policy our TSR performance over the three-year period was an increase of 72.7% compared to the FTSE median of 48.7% with the upper quartile at 90.2% and as a consequence 75.9% of this proportion of the award vested on 28 July 2015

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

2012-2015 Long Term Incentive Plan performance metrics

Performance measure	Weighting	Performance	Achievement against performance measures
Revenue Growth	23%	115%	Out-performance
Operating Cash Flow	23%	114%	Out-performance
EPS Growth	23%	137%	Significant out-performance
Relative TSR	30%	75.9%	Between median and upper quartile

The total overall vesting for the LTIP was therefore 93%. Over the longer term our consistently strong company performance has delivered excellent returns for our shareholders and the Board has proposed a 3% increase in the dividend to 32.8p which is the 11th consecutive year of growth.

Long Term Incentive Plan, Co-Investment Plan and Sharesave Awards made in the Year

	No. of shares awarded	Grant Date	Face Value on Date of Grant	Performance Period	Vesting Date	Minimum % of shares that can vest	Maximum % of shares that can vest
Long Term Incentive Plan							
Jeremy Darroch	600,000	25/07/14	£5,247,000 ¹	01/07/14 – 30/06/17	25/07/17	0%	100%
Andrew Griffith	350,000	25/07/14	£3,060,750 ¹	01/07/14 – 30/06/17	25/07/17	0%	100%
Co-Investment Plan							
Jeremy Darroch	163,644	01/09/14	£1,443,340 ²	01/07/14 – 30/06/17	01/09/17	0%	100%
Andrew Griffith	76,930	01/09/14	£678,523 ²	01/07/14 – 30/06/17	01/09/17	0%	100%
Sharesave Plan							
Jeremy Darroch	2,139	30/09/14	£18,866 ³	n/a	01/02/20	n/a	n/a
Andrew Griffith	1,271	30/09/14	£11,210 ³	n/a	01/02/18	n/a	n/a

1 Market price at date of LTIP award was £8.745 on 25 July 2014

2 Market price at date of CIP matching award was £8.82 on 1 September 2014

3 Market price at date of Sharesave grant was £8.82 on 30 September 2014

Performance conditions for the Long Term Incentive Plan

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

1 Operational targets – 70% of the award

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

- EPS growth
- Operating cash flow
- Revenue growth

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

For EPS, two points are awarded for growth of RPI +3% per year with the maximum 10 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 10 points for 105% or more.
- One point equates to 10% of the award vesting, with maximum vesting for 21 points or more vesting on a straight line basis between these points. There is no additional award for achievement above 21 points.

If the minimum range is met each year for all measures, 26% of the shares vest.

- The Committee sets a high threshold vesting level in line with our policy of rewarding success not failure. Maximum vesting is not achievable if performance is below threshold for any one measure.
- To earn the minimum of one point on any one of these measures requires the achievement of 75% of target. Missing two targets would represent a significant and disproportionate reduction in total compensation.

Directors' remuneration report – Annual Remuneration Implementation Report (continued)

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 2014 at RPI +5% p a. This is equivalent to absolute growth in earnings of 26% over three years if RPI is 3% a year. This level of growth in earnings was set at a level which exceeded consensus research analysts' estimates.

2 Relative TSR performance – 30% of the award

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

TSR Vesting Schedule

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

Performance conditions for the Co-Investment Plan

CIP awards made in 2014 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 six years to 30 June 2015, measured as the value of a £100 holding in ordinary shares at the start of the period. The performance is shown relative to the FTSE 100, which represents the broad market index against which the Company's shares are traded. With the acquisitions of Sky Deutschland and Sky Italia the narrow focus of the FTSE 350 Media companies is no longer relevant given the broader scope of the business, and this index, which was shown in previous years, is removed from the chart below.

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 below sets out total remuneration received by the Executive Directors for the financial year ended 30 June 2015 and the prior year ended 30 June 2014. The vesting pattern of awards under the LTIP is biennial, shares vest every other year over a three-year performance period. This means that every other year no payment is due as there is no vesting of awards. The following year, assuming performance conditions are met, there will be a payment which covers the equivalent of two years vesting. 2015 was a year in which the LTIPs awarded for the performance period 1 July 2012 to 30 June 2015 vested. The single figure for the Group CEO in 2015 is therefore larger than the 2014 figure.

Single Figure for Executive Directors' Total Remuneration (audited)

	Salary ¹		Taxable Benefits ²		Pension ³		Bonus ⁴		Long Term Incentive Plan ⁵		Co-Investment Plan ⁶		Total	
	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015
Jeremy Darroch	960,700	984,750	17,907	18,607	149,491	147,814	1,921,400	1,969,500	n/a	11,818,440	1,830,092	1,950,138	4,879,590	16,889,249
Andrew Griffith	602,175	620,000	16,115	16,115	83,481	94,755	903,263	930,000	n/a	6,303,168	843,936	897,111	2,448,970	8,861,148

1 Executive Directors' salaries were increased on 1 July 2014 by 2.5% for the Group CEO and 2.96% for the Group CFO. The average increase for employees at that time was 2.5%, rising to 3.5% for those earning less than £30,000 per year with a range of 0% to 10% for performance, promotions and market adjustments.

2 Taxable benefits include company car or car allowance and healthcare.

3 Pension comprises a cash allowance in lieu of company contributions for Jeremy Darroch and Andrew Griffith.

4 Bonus shows the full amount earned shortly after year end in which the performance measures applied, including amounts deferred through the CIP. The payout for the 2014 bonus was 200% of base salary for the Group CEO and 150% for the Group CFO. The figures for 2015 are 200% for the Group CEO and 150% for the Group CFO. The Executive Directors deferred 50% of their bonus into shares through the CIP in 2014 and it is anticipated they will do so for 2015.

5 Long Term Incentive Plan shows the market value of the awards vested immediately following the end of the relevant performance period. No LTIP shares vested for the performance period ended 30 June 2014. The figure for 2015 is for LTIP shares which vested on 28 July 2015 using the average share price over the period 1 April to 30 June 2015 of £10.59.

6 Co-Investment Plan shows the market value of the matching shares that vested on 30 August 2014 with a share price of £8.82. Previously the value of these shares was estimated using the average share price over the period 1 April to 30 June 2014 of £8.81. It also shows the estimated value of matching shares that are due to vest on 28 August 2015 using the average share price over the period 1 April to 30 June 2015 of £10.59.

Directors' remuneration report – Annual Remuneration Implementation Report (continued)

Group CEO's remuneration

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

It should be noted that total remuneration for 2013 includes vesting of the one-off additional LTIP award of 300,000 shares made in 2011 at the time of the possible News Corporation bid. The average annual total remuneration paid to the Group CEO over this six-year period, excluding this one-off award, is £9108,859.

Year	Single figure of total remuneration	Annual Bonus payout against maximum opportunity %	LTIP vesting rates against maximum opportunity %	CIP vesting rates against maximum opportunity %
2015	16,889,249 ¹	100	93	100
2014	4,879,590 ²	100	n/a	100
2013	17,026,982 ³	97.5	100	100
2012	4,550,037 ⁴	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 LTIP shares which vested on 28 July 2015 and CIP matching shares due to vest on 28 August 2015, both using the average share price over the period 1 April to 30 June 2015 of £10.59.

2 Includes valuation of CIP matching shares which vested on 30 August 2014 with share price of £8.82. Previously reported using the average share price over the period 1 April to 30 June 2014 of £8.818.

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

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

Percentage change in Group CEO's remuneration 1 July 2014 to 30 June 2015

The table below shows the percentage change in Group CEO remuneration from 1 July 2014 to 30 June 2015 compared to the average change for all employees.

	Group CEO % change	All employees % change
Base Salary ¹	2.5%	3.5% employees earning less than £30,000; 2.5% above £30,000
Taxable Benefits	3.9%	0%
Annual Bonus	2.5%	11%

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

Relative importance of pay spend

The table below shows total employee costs and dividend payments to shareholders for 2014 and 2015.

	2014 (£m)	2015 (£m)
Total employee costs	1,044	1,334 ¹
Dividend payments	485	549

1 Group total including Germany and Italy.

Disclosure of Performance Targets for 2013

The Committee has discussed at length its approach to disclosure of performance targets. Whilst maintaining its position that early disclosure of targets would be commercially detrimental because of the highly competitive nature of the market in which it operates, it considers that performance targets for the 2013 annual bonus and for the Long Term Incentive Plan that vested in that year are no longer commercially sensitive.

In setting the targets, the Committee gave careful consideration to the business plan and to the research analyst consensus forecasts at the time. The targets and performance for the 2013 annual bonus are shown in the table below.

Performance Metric	2012/13		Performance vs Target
	Target	Performance	
Paid-for Products Growth	+2.75m	+2.563m	93%
Operating Profit	£1,300m	£1,330m	102%
Operating Cash Flow	£1,275m	£1,396m	109%

On the basis of this performance, the Committee determined that the bonus was paid at 97.5% of maximum for the Group CEO and 96.7% for the Group CFO.

The Long Term Investment Plan that vested in 2013 for the 2010–2013 performance period was based on three equally weighted operational performance measures of average EPS growth, Operating Cash Flow and Revenue Growth. Each was considered by the Committee to be a key indicator of Sky's continued success. TSR was not included as a performance measure for that particular award due to the possible News Corporation (subsequently renamed 21st Century Fox Inc.) bid.

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 and 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 2015 are disclosed in the table on page 62</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 60</p>
Benefits	<p>Additional benefits may be provided for business purposes eg provision of a car to travel to/from meetings</p> <p>Non-Executive Directors are not eligible to join Sky's pension plan</p> <p>Non-Executive Directors are eligible to receive a Sky subscription package</p>
Bonus and Share Plans	<p>Non-Executive Directors are not eligible to participate in any bonus or share scheme offered by the Company</p>
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>

The Remuneration Report was approved by the Board of Directors on 28 July 2015 and signed on its behalf by

Tracy Clarke
Chairman of Remuneration Committee



Directors' report and statutory disclosures

Introduction

In accordance with the Companies Act 2006 the Corporate governance report on pages 40 to 50 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 2015.

Shares

Dividends

The Directors recommend a final dividend for the year ended 30 June 2015 of 20.50 pence per ordinary share which, together with the interim dividend of 12.30 pence paid to shareholders on 21 April 2015, will make a total dividend for the year of 32.80 pence (2014: 32.00 pence). Subject to approval at the 2015 AGM, the final dividend will be paid on 20 November 2015 to shareholders appearing on the register at the close of business on 23 October 2015.

Share capital

The Company's issued ordinary share capital at 30 June 2015 comprised one class of ordinary shares. All of the issued ordinary shares are fully paid and rank equally in all respects. Further details of the Company's share capital and share issues under the period under review are disclosed in note 25 to the consolidated financial statements.

Interests in voting rights

Information provided to the Company pursuant to the UK Listing Authority's Disclosure and Transparency Rules ("DTRs") is published on a Regulatory Information Service and on the Company's website. As at 30 June 2015, 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 notified
21st Century Fox UK Nominees Limited ¹	672,783,139 ³	39.14
BlackRock Inc. ²	88,682,765	5.06

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

2. Indirect holding.

3. Number of shares held as at 30 June 2015.

There have been no changes to the above significant holdings between 1 July and 28 July 2015.

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 2015, the ESOP had an interest in 14,805,780 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, BSKY8 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.

Relationship Agreement

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

21st Century Fox Inc. ("21CF") and certain of its wholly owned subsidiaries directly or indirectly exercise or control 39.14% of the voting rights of the Company and are therefore deemed to be controlling shareholders for the purposes of the Listing Rules.

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

In accordance with the Listing Rules, the Board confirms that throughout the period under review, that is from 13 November 2014 to 30 June 2015:

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

Outstanding share awards Jeremy Darroch (audited)

Date of award	At 30 June 2014	Vested during year	Exercised during year	Lapsed during year	At 30 June 2015	Share price at date of award	Market price on exercise	Date from which exercisable	Expiry date
LTIP ¹									
26 07 12	600 000	-	-	-	600 000	£7 065	n/a	26 07 15	26 07 20
26 07 13	600 000	-	-	-	600 000	£8 22	n/a	26 07 15	26 07 20
CIP Matching ^{2,3,4,5}									
27 08 09 ²	204 425	-	204 425	-	0	£5 405	£8 5877	27 08 12	27 08 17
31 08 10 ²	183 935	-	183 935	-	0	£7 075	£8 5877	31 08 13	31 08 18
30 08 11 ²	207 729	207 729	207 729	-	0	£6 46	£8 81	30 08 14	30 08 19
28 08 12	184 149	-	-	-	184 149	£7 64	n/a	28 08 15	28 08 20
28 08 13	162 794	-	-	-	162 794	£8 41	n/a	28 08 16	28 08 21
Sharesave									
25 09 09	3 591	3 591	3 591	-	0	£4 33	£9 555	01 02 15	01 08 15

Outstanding share awards Andrew Griffith (audited)

Date of award	At 30 June 2014	Vested during year	Exercised during year	Lapsed during year	At 30 June 2015	Share price at date of award	Market price on exercise	Date from which exercisable	Expiry date
LTIP ¹									
26 07 12	320 000	-	-	-	320 000	£7 065	n/a	26 07 15	26 07 20
26 07 13	320 000	-	-	-	320 000	£8 22	n/a	26 07 15	26 07 20
CIP Matching ^{2,3,4,5}									
30 08 11 ²	95 793	95 793	95 793	-	0	£6 46	£8 81	30 08 14	30 08 19
28 08 12	84 713	-	-	-	84 713	£7 64	n/a	28 08 15	28 08 20
28 08 13	74 249	-	-	-	74 249	£8 41	n/a	28 08 16	28 08 21
Sharesave									
16 09 11	1 771	1 771	1 771	-	0	£5 08	£9 555	01 02 15	01 08 15

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

2 The shares were exercised and subsequently sold on 1 September 2014 (the Awards granted in 2011) and on 23 October 2014 (the Awards granted in 2009 and 2010)

The aggregate value received by the Executive Directors on exercise of their 2009 2010 and 2011 CIP Matching Awards before tax was £6 089 147

3 Dividends are payable on shares purchased through the CIP During the year the Executive Directors received £81 725 78 (2014 £82 168 60)

4 Performance conditions relating to CIP matching awards can be found on page 56

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

Directors' remuneration report – Annual Remuneration Implementation Report (continued)

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 2015 and the prior year ended 30 June 2014

	2015 Total Fees ¹	2014 Total Fees
Nick Ferguson	473 934	462 375
Chase Carey	61 500	60 000
Tracy Clarke	106 500	95 160
David DeVoe	61 500	60 000
Dave Lewis	91 500	90 000
Martin Gilbert ³	127 513	105 000
Adine Grate ⁴	80 859	66 987
Andy Higginson ²	61 042	145 000
James Murdoch	96 500	95 000
Matthieu Pigasse	71 500	70 000
Danny Rimer	61 500	77 769
Arthur Siskind	71 500	70 000
Andy Sukawaty	71 500	70 000

¹ Basic fees were increased by 2.5% with effect from 1 July 2014

² Andy Higginson retired at the AGM on 21 November 2014

³ Martin Gilbert replaced Andy Higginson as Senior Independent Director and member of the Governance and Nominations Committee following Andy's retirement at the AGM on 21 November 2014

⁴ Adine Grate was appointed as a member of the Remuneration Committee replacing Martin Gilbert with effect from 25 July 2014

Fees for the Chairman and base Non-Executive Director fees were increased by 2.5% effective 1 July 2015 as detailed in the table below

	1 July 2015 £	1 July 2014 £
Chairman (all inclusive fee)	485 782	473 934
Deputy Chairman ¹	30 000	30 000
Board member	63 000	61 500
Additional responsibilities		
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 engages with major shareholders and institutional investor groups to talk about remuneration. This enables the Company to take shareholders' views fully into account when making decisions about remuneration. At the AGM held on 21 November 2014, 92.97% voted in favour of the Remuneration Policy and 86.23% 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 Policy	1 313 682 688	92.97	99 341 288	7.03	1 413 023 976	13 646 452
Approval of the Remuneration Report	996 564 957	86.23	159 084 662	13.77	1 155 649 619	271 020 809

The Committee has sought the views of major shareholders since then and has made a number of important changes to its approach to transparency and disclosure of performance targets as set out in the Chairman's statement on page 51.

Membership of the Committee

During the year ended 30 June 2015 the Committee chaired by Tracy Clarke met five times. Nick Ferguson, Adine Grate and Andy Sukawaty are members of the Committee. Attendance during the year is shown on page 42. Martin Gilbert stepped down from the Committee on 24 July 2014 and Adine Grate was appointed in his place with effect from 25 July 2014.

Role of the Committee

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

Committee activities during the year

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

July 2014	November 2014	January 2015	April 2015	June 2015
Performance outcomes for bonus, LTIP and CIP	Performance update - bonus, LTIP and CIP	Performance update - bonus, LTIP and CIP	Performance update - bonus, LTIP and CIP	Performance update - bonus, LTIP and CIP
Target setting for 2014/15	Update on reporting season	Review Committee Terms of Reference	Benchmarking for Executive Directors	Policy review on 2015 Directors Remuneration Report
Review and approve remuneration for Executive Directors and Senior Management	Shareholder feedback and proxy voting guidance		Update on reporting season	Review position on disclosure of performance targets
Review and approve Directors Remuneration Report				
Update on meetings with shareholders voting advisory services				

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 £161,804. During the year, Towers Watson also provided Sky with advice on pension within its reward strategy and the operation of its pension and related benefit provisions.

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

Directors' remuneration report

Our Remuneration Policy

This section describes the Directors' Remuneration Policy that was approved by shareholders at the 2014 AGM and which the Committee intends will be effective until the 2017 AGM. The Policy table is reproduced in full below. For ease of reading some subsequent sub-sections including remuneration on recruitment or appointment to the Board and payments on termination and loss of office have been omitted but may be referred to in the 2014 Annual Report pages 60-66 available on our website at sky.com/corporate/investors/annual-report-2014

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 came 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 Sky 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</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 15 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 15 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</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"> the material restatement of the Company's audited results; or actions attributable to participants resulting in material reputational damage to the business. <p>The Committee will determine how to apply this sanction on a case by-case basis.</p>	<p>The Committee reviews the number of shares to be granted annually. A typical award for the Group CEO is 600 000 shares in any 12-month period.</p> <p>The maximum award level is 900 000 shares in any 12-month period. Such awards will only be made in exceptional circumstances.</p> <p>100% of the shares vest when the performance criteria are met in full. If the minimum of the range is met each year for all measures 26% of the shares vest.</p>	<p>Performance measures are typically a mix of operational measures and relative TSR.</p> <p>Operational measures used in the past have included EPS, operating cash flow and revenue growth.</p> <p>The weighting of the measures may vary but is typically 70% operational measures and 30% relative TSR.</p>

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.

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 the specific areas of our business 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 53.

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 (updated for 2015)

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

- Minimum: base salary as at 1 July 2015 plus pension and benefits as per the table on page 57 (fixed pay)
- Maximum: fixed pay plus maximum awards for annual bonus (200% of base salary for the Group CEO and 150% for the Group CFO)
- Co-Investment Plan (maximum deferral of 50% of the annual bonus into investment shares and full vesting of 1.5x matching shares) and Long Term Incentive Plan (600,000 shares for the Group CEO and 350,000 shares for the Group 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 six year single figure remuneration table for the Group CEO on page 58.

Jeremy Darroch, Group CEO

Andrew Griffith, Group CFO

Scenarios are modelled assuming a share price of £10.59 which is the average share price over the period 1 April to 30 June 2015 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 Group CEO within the parameters agreed by the Committee. The MLTIP mirrors the LTIP in design in order to ensure alignment between participants in either plan.

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 no options are outstanding at 30 June 2015. 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 10,000 employees participate in these schemes. It is anticipated that employees in Sky Deutschland and Sky Italia will be invited to participate in similar unapproved schemes during 2015.

Shareholding guidelines and share ownership

The Committee recognises the importance of aligning Executive Directors and shareholders' interests through executives building up a significant shareholding in the Company. The shareholding requirements are 3x base salary for the Group CEO and 2x base salary for the Group 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 60 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.

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. For the period 1 July 2014 to 30 June 2015, Jeremy earned £80,000 in this role.

Andrew Griffith became a Non-Executive Director of Just Eat plc in March 2014 and serves as senior independent director, chairman of the audit committee and as a member of the remuneration and nominations committees. For the period 1 July 2014 to 30 June 2015, Andrew earned £60,000 in this role.

Remuneration of the Chairman and Non-Executive Directors

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

Element and purpose	Operation
Fees Reflect individual responsibilities and membership of Board Committees. Attract Non-Executive Directors with the skills and experience required to oversee the implementation of strategy	<p>Fees for the Chairman and the Non-Executive Directors are reviewed annually having regard to independent advice and surveys</p> <p>The Corporate Governance and 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 2015 are disclosed in the table on page 62</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 60</p>
Benefits	<p>Additional benefits may be provided for business purposes eg provision of a car to travel to/from meetings</p> <p>Non-Executive Directors are not eligible to join Sky's pension plan</p> <p>Non-Executive Directors are eligible to receive a Sky subscription package</p>
Bonus and Share Plans	Non-Executive Directors are not eligible to participate in any bonus or share scheme offered by the Company
Notice and termination provisions	<p>Each Non-Executive Director's appointment is for an initial three-year term. In accordance with the UK Corporate Governance Code all Directors submit themselves for annual reappointment</p> <p>Non-Executive Directors each have a letter of appointment. These appointments may be terminated without notice. Any fees payable would be settled at the date of termination. No continuing payment of fees are due if a Non-Executive Director is not re-elected by shareholders at the Annual General Meeting</p>

The Remuneration Report was approved by the Board of Directors on 28 July 2015 and signed on its behalf by

Tracy Clarke
Chairman of Remuneration Committee

Directors' report and statutory disclosures

Introduction

In accordance with the Companies Act 2006 the Corporate governance report on pages 40 to 50 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 2015

Shares

Dividends

The Directors recommend a final dividend for the year ended 30 June 2015 of 20.50 pence per ordinary share which, together with the interim dividend of 12.30 pence paid to shareholders on 21 April 2015, will make a total dividend for the year of 32.80 pence (2014: 32.00 pence). Subject to approval at the 2015 AGM, the final dividend will be paid on 20 November 2015 to shareholders appearing on the register at the close of business on 23 October 2015.

Share capital

The Company's issued ordinary share capital at 30 June 2015 comprised one class of ordinary shares. All of the issued ordinary shares are fully paid and rank equally in all respects. Further details of the Company's share capital and share issues under the period under review are disclosed in note 25 to the consolidated financial statements.

Interests in voting rights

Information provided to the Company pursuant to the UK Listing Authority's Disclosure and Transparency Rules (DTRs) is published on a Regulatory Information Service and on the Company's website. As at 30 June 2015, 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 notified
21st Century Fox UK Nominees Limited ¹	672,783,139 ³	39.14
BlackRock, Inc. ²	88,682,765	5.06

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

2. Indirect holding.

3. Number of shares held as at 30 June 2015.

There have been no changes to the above significant holdings between 1 July and 28 July 2015.

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 2015, the ESOP had an interest in 14,805,780 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, BSKY8 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.

Relationship Agreement

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

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

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

In accordance with the Listing Rules, the Board confirms that, throughout the period under review, that is from 13 November 2014 to 30 June 2015:

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

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

Following the previous share buy-back programmes approved at the 2011 and 2012 AGMs at the Company's 2013 AGM, the Company was granted the authority to return £500 million of capital to shareholders via a further share buy-back programme (the 2013 Authority). The authority was subject to an agreement between the Company and 21st Century Fox UK Nominees Limited (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. Following the announcement of the acquisitions of Sky Italia and the majority holding of Sky Deutschland the buy-back ceased on 25 July 2014. No purchases were made by the Company under the 2013 Authority during the year. The 2013 authority expired at the 2014 AGM and was not renewed.

At the 2014 AGM the Directors were given authority to allot ordinary shares up to a maximum nominal amount of £286 502 871 representing approximately 33% of the Company's then issued ordinary share capital (the Allotment Authority). The Directors were additionally empowered to allot ordinary shares for cash pursuant to the Allotment Authority on a non-pre-emptive basis (a) in connection with a rights issue or open offer and (b) (otherwise than in connection with a rights issue or open offer) up to a maximum nominal value of £42 975 430 representing 5% of the Company's then issued share capital.

Articles of association

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

Annual General Meeting

The venue and timing of the Company's 2015 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.

Board of Directors

Board of Directors and their interests

The Directors who served during the year were: Nick Ferguson, Jeremy Darroch, Andrew Griffith, Chase Carey, Tracy Clarke, David DeVoe, Matthieu Pigasse, Martin Gilbert, Adine Grate, Andy Higginson, Dave Lewis, James Murdoch, Danny Rimer, Arthur Siskind and Andy Sukawaty. Andy Higginson retired after not seeking reappointment at the Annual General Meeting on 21 November 2014. The biographical details of the Directors of the Company can be found on pages 38 and 39.

The Directors' interests in the ordinary shares and options of the Company are disclosed within the Directors' remuneration report on pages 53 to 69.

Appointment and retirement of Directors

The Directors may from time to time appoint one or more Directors. Any such Director shall hold office only until the next AGM and shall then be eligible for reappointment by the Company's shareholders. At the Company's 2015 AGM all current Executive and Non-Executive Directors will retire and offer themselves for reappointment in compliance with the Code with the exception of David DeVoe, Danny Rimer and Arthur Siskind who have decided not to seek reappointment this year and will step down from the Board at the conclusion of the AGM. Immediately following the AGM it is intended that John Nallen, CFO of 21st Century Fox, will be appointed by the Board as a Non-Executive Director.

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.

Employees

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.

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, qualifications and performance. 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.

We are currently focusing on Women in Leadership as we believe gender balanced teams create better business outcomes in order to meet the needs and wants of our consumers more effectively.

As at 30 June 2015 the table below demonstrates diversity throughout the Group.

	Male		Female	
Board of Directors ^{1,2}	12	86%	2	14%
Senior managers ²	278	76%	86	24%
All employees ^{2,3}	17 881	65%	9 562	35%

1 As defined in the Companies Act 2006

2 2014/15 data is independently assured by Deloitte LLP and can be viewed online at sky.com/biggerpicture

3 Based on full-time equivalent employees from continuing operations and excluding people who work for our joint ventures

Directors' report and statutory disclosures

(continued)

Employee involvement

We want all our people to feel involved and engaged in our business. Therefore we need to know what our people are thinking and how they feel about working for Sky. This is our key indicator and we measure this through our people survey which we run twice a year. The engagement scores are for the UK only as they are not currently comparable to the wider European organisation.

We continue to experience high levels of participation in our people survey averaging 78% across the two surveys this year. We benchmark our results externally using data from Aon Hewitt so that we can compare our performance against other large UK companies.

This year we have implemented a new engagement index which allows us to further pinpoint the key elements of life at Sky that really make a difference to how our employees feel about our Company. Therefore the score has been calculated differently. Our overall employee engagement score is 59% which represents a high level of engagement and continues to outperform the external benchmark of 48%.

The employee engagement score is made up of results from questions about whether our people support our strategy, understand how their work contributes to it, are willing to go the extra mile to help us succeed and whether they would recommend Sky as a good place to work.

Responsible business

Our commitment to act responsibly in all we do is integral to the culture we have at Sky (see the Employee section above). Our high ethical, social and environmental standards set out what people can expect of us and the standards we expect from our business partners.

Customers

So that our customers can all have the same great experience of Sky, we're ensuring child safety and accessibility elements are included in new product offerings in line with government and regulator expectations across our markets as well as consumer demand. And because we understand the risk to our customers and our business should there be a breach of data, we are expanding on the existing approaches to data protection and privacy in each territory to put in place a comprehensive group-wide approach.

Responsible sourcing and Human rights

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 expect all our business partners to deliver a high-quality service and provide good value for money, as well as to behave ethically and comply with relevant environmental and social laws and regulations, including labour standards and practices. These are set out in our Responsible Sourcing Policy, which is available on our website. We are currently working to roll out this policy across the Group, expanding on what is already in place in Germany and Italy. In the UK, all of the suppliers we spend more than £100,000 with per year are assessed for inherent social, environmental and ethical risk¹ and we work with those that are deemed high risk to conduct audits and set out action plans for addressing issues that are flagged, such as working hours or health and safety. We are now expanding this approach to risk assessment right across the Group.

We are committed to upholding the principles of human rights. This is particularly important at Sky in managing the social, ethical and environmental impacts of our supply chain and in the way we treat our people and our customers. We do not have a specific human rights policy as this commitment is reflected through Sky's Ways of Working in the UK and Ireland, our Code of Conduct, and across a range of policies relevant to these areas. This includes our policies relating to environment, data protection and child safety.

Our commitment to respect and uphold human rights is also conveyed through our Responsible Sourcing Policy. Our approach to responsible sourcing is in line with the Guiding Principles on Business and Human Rights (or Ruggie framework).

Environment and Greenhouse gas emissions

To date, our environment strategy as a UK business has been threefold: to reduce our carbon footprint, to make our products more sustainable and to use our position as a leading media and communications company to raise awareness and drive positive change on environmental issues amongst our business partners and to inspire action amongst our customers through Sky Rainforest Rescue.

Through Sky Rainforest Rescue, our six-year partnership with WWF, we have reached our target of helping to save one billion trees in the Amazon rainforest. We have raised over £9 million, exceeding our target of £8 million of which Sky has match-funded £4 million. On the ground in our project area in Acre in Brazil, 1,500 farmers have signed up to our sustainable farming scheme, helping make the forest worth more alive than dead. And in the UK and Ireland, 7.3 million people have a greater awareness of deforestation as a result of our innovative communications, on-screen programming, and experiential activities. Over the next three years, we will be working strategically with WWF to continue to raise awareness of environmental issues.

In the UK and Ireland, we continue to ensure all of the products returned to us are reused or recycled and we are working closely with our suppliers to help them reduce their environmental impacts.

We have been reporting on our environmental performance since 2008, well ahead of the mandatory disclosures of greenhouse gas emissions under the Companies Act 2006 introduced in 2013. We have reduced our emissions relative to revenue (tCO₂e/£m) across Sky's UK and Irish territories by 38% since 2008, meaning we are on track to meet our target of halving our emissions relative to revenue (tCO₂e/£m) by 2020. In addition, despite significant growth as a business, we are maintaining a reduction in absolute carbon emissions against our 2008 baseline (see table opposite).

With the continued development of our new West London campus, our new buildings and our leased buildings were both still operational over the 2014/15 year. It was therefore challenging to keep our energy use and carbon emissions lower than in the year before. However, as our new buildings are BREEAM Excellent and have a number of smart, sustainable initiatives, we expect to see energy demand reduce in the future. We also continue to exceed the industry benchmark for the energy efficiency of our Data Centres, which will help us manage energy demand as our business needs increase. We remain committed to our long-term investments, for example in renewable energy, and are exploring ways to further complement our existing on-site solar, wind, biomass and Combined Cooling and Heating Plant energy generation.

¹ Excluding one-off suppliers. Independently assured by Deloitte LLP for 2014/15.

Sky UK & Ireland Progress against target to halve our carbon emissions relative to revenue

	Target	2008/09 (Baseline)	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Gross absolute emissions (tCO ₂ e) ^{1,2}		105 839	108 817	107 294	94 617	92 968	94 420	99 724
Scope 1		20 322	23 465	23 098	20 939	20 429	20 633	22 361
Scope 2		85 517	85 352	84 196	73 677	72 539	73 787	77 363
Carbon intensity (tCO ₂ e/£m) ²		20.7	19.1	16.3	13.9	12.8	12.4	12.8
Reduction in gross absolute CO ₂ e emissions relative to revenue (%)	-50	0	-8	-21	-33	-38	-40	-38

1 Historical data has been re-baselined to reflect change in vehicle fuel emission factors as well as to include Joint Ventures (where ownership >51%) International offices/bureaus Training Centres and significant sites associated with Sky Home Services

2 Independently assured by Deloitte LLP

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

Sky group-wide carbon emissions and carbon intensity 2014/15

	Sky Group	UK & Ireland	Germany & Austria ¹	Italy ¹
Gross absolute carbon emissions (tCO ₂ e) ^{1,2,3,4}				
Scope 1	27145	22 361	2 119	2 665
Fuel combustion (gas, diesel, generators, fuel oil, vehicles)				
Diesel	668	607	1	60
Fuel Oil ⁵	54	n/a	54	n/a
Gas	4 502	4 344	n/a	158
Vehicle Fuel	21 226	16 933	2 064	2 229
Operation of facilities (refrigerants)				
Refrigerants	695	477	0	218
Scope 2	101 674	77 363	3 248	21 063
Purchased district heating net ⁶	184	n/a	112	72
Purchased district heating gross	485	n/a	413	72
Purchased electricity net ⁷	38 649	15 572	2 086	20 991
Purchased electricity gross	101 187	77 361	2 835	20 991
Purchased steam	2	2	n/a	n/a
Total (Scope 1 and 2) net CO ₂ e (tCO ₂ e)	65 980	37 935	4 317	23 728
Total (Scope 1 and 2) gross CO ₂ e (tCO ₂ e)	128 819	99 724	5 367	23 728
Joint Ventures ⁸	138	138	n/a	n/a
Carbon intensity ²				
Revenue (£m)	11 283	7 820	1 377	2 086
Carbon intensity (tCO ₂ e/£m revenue)	11.42	12.75	3.90	11.37

1 Emissions are for the full financial year (1 July 2014 - 30 June 2015) including the period prior to acquisition.

2 We measure our CO₂e emissions according to the Greenhouse Gas Protocol, the global standard for reporting greenhouse gas emissions. Our total gross CO₂e emissions include all direct Greenhouse Gas emissions, and our net emissions include the energy that we do not procure from a renewable energy source. Our net emissions are those remaining after deducting 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.

3 Our CO₂e emissions data is independently assured by Deloitte LLP. More information about our environmental targets and performance can be found at sky.com/environment.

4 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.

5 Fuel Oil only used for heating by Sky in Germany.

6 District heating (i.e. heat obtained from a cogeneration plant) can be used as an alternative source of heat to gas. Sky in Germany and Italy purchase district heating. In the UK Sky does not purchase any district heating as it generates its own heat from an onsite biomass plant.

7 Our Italy does not purchase electricity from a renewable electricity tariff and so there is no difference between their gross and net emissions.

8 Joint ventures are enterprises or business where Sky is the majority shareholder (>50%).

Directors' report and statutory disclosures (continued)

Other disclosures

Contracts of Significance

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

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

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

The Company undertook a placing of ordinary shares to part-fund the consideration for the Sky Italia Acquisition, the Sky Deutschland Acquisition and the Sky Deutschland Offer, and 21st Century Fox entered into an agreement with the Company to subscribe for approximately 611 million ordinary shares so as to maintain its then-existing percentage shareholding in the Company following completion of the placing.

Significant agreements

The following significant agreements which were in force at 30 June 2015 take effect, alter or terminate on a change of control of the Company following a takeover bid.

Premier League

In 2012 Sky UK Limited (a Group subsidiary) entered into an agreement (the 2012 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 PL Single Buyer Rule). Pursuant to the 2012 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 2012 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 PL Single Buyer Rule.

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

DFL Contract/Bundesliga Rights

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

Serie A

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

21st Century Fox voting agreement

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

Revolving Credit Facility

The Group has a £1,000,000,000 syndicated multicurrency revolving credit facility ("RCF") with a maturity date of 30 November 2020. In the event of a change of control of the Company as a result of which both S&P and Moody's downgrade the Company's credit rating below investment grade within 90 days, the lenders can require any amounts outstanding under the RCF to be repaid (other than in the event that 21st Century Fox or any subsidiary or holding company thereof (or a subsidiary of such holding company) acquires such control).

GMTN Programme bond issue

On 3 April 2007 the certain Group entities established a euro medium-term note programme which provides the Group with a standardised documentation platform to allow for senior debt issuance in the Eurobond markets. On 7 February 2014 the programme was updated and expanded to become a global medium-term note programme (the GMTN Programme). The GMTN Programme was updated in June 2015. The maximum potential issuance under the GMTN Programme is €5 billion. On 14 May 2007 the Company issued bonds under the GMTN Programme (then known as an EMTN programme) consisting of €300 million guaranteed notes paying 6.000% interest and maturing on 14 May 2027 (the 2007 Notes). Pursuant to the final terms attaching to the 2007 Notes, the Company will be required to make an offer to redeem or purchase the 2007 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 2007 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 2007 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 2007 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.

EMTN Programme bond issue

On 5 September 2014 certain Group entities also established a €10 billion EMTN programme (the EMTN Programme) which provides the Group with a standardised documentation platform to allow for senior debt issuance in the Eurobond markets. In September 2014 the Company issued (i) €1,500 million 1.500% guaranteed notes due 2021 and (ii) €1,000 million 2.500% guaranteed notes due 2026. In November 2014 the Company issued (i) €850 million 1.875% guaranteed notes due 2023, (ii) €450 million 2.875% guaranteed notes due 2020, (iii) €300 million 4.000% guaranteed notes due 2029 and (iv) €400 million 2.750% guaranteed notes due 2029. In April 2015 the Company issued €600 million floating rate guaranteed notes due 2020 (together the Notes). Pursuant to the conditions of the Notes, the Company will be required to make an offer to redeem or purchase the Notes at the relevant principal amount plus interest up to the date of redemption if there is a change of control of the Company or the announcement of a potential change of control (i) which if the Notes carry an investment grade credit rating, results in a downgrade to a non-investment grade rating or a withdrawal of that rating, or (ii) 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 or the announcement of the potential change of control.

Directors' report and statutory disclosures (continued)

October 2005 February 2008 November 2008 November 2012 and September 2014 bond issues

In October 2005 certain Group entities entered into an indenture in respect of US\$750 000 000 5.625% senior unsecured notes due 2015 US\$350 000 000 6.500% senior unsecured notes due 2035 and £400 000 000 5.750% senior unsecured notes due 2017 (the 2005 Indenture). In February 2008 certain Group entities entered into an indenture in respect of US\$750 million 6.100% senior unsecured notes due 2018 (the February 2008 Indenture) and in November 2008 certain Group entities entered into an indenture in respect of US\$600 million 9.500% senior unsecured notes due 2018 (as amended and supplemented from time to time the November 2008 Indenture). In November 2012 the parties to the November 2008 Indenture entered into a supplemental indenture in respect of a further issuance of US\$800 million 3.125% senior unsecured notes due November 2022. The November 2008 Indenture was further amended and supplemented in September 2014 with the parties thereto entering into a supplemental indenture in respect of a further issuance of US\$750 000 000 2.625% senior unsecured notes due 2019 and US\$1 250 000 000 3.750% senior unsecured notes due 2024. Pursuant to the February 2008 Indenture and the November 2008 Indenture the Company will be required to make an offer to redeem or purchase its securities at a price equal to 101% of their principal amount plus accrued and unpaid interest up to the date of redemption or repurchase if there is a change of control or the announcement of a potential change of control of the Company (i) which if the securities carry an investment grade credit rating results in a downgrade to a non-investment grade rating or a withdrawal of that rating, or (ii) which if the securities carry a non-investment grade rating results in a downgrade by one or more notches or a withdrawal of that non-investment grade rating, or (iii) where if the securities do not carry a credit rating the Company does not seek such a rating or is unable to achieve an investment grade rating provided that in each case the decision to downgrade withdraw or not to award a credit rating occurs within a certain period of time after the change of control and the relevant rating agency cites that such decision(s) resulted from the change of control or the announcement of a potential change of control.

UK broadcasting licences

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

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

German broadcasting licences

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

Italian broadcasting licences

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

Disclosures required under Listing Rule 9.8.4R

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

Information required	Page
(1) Amount of interest capitalised and tax relief	98 (Note 4)
(2) Publication of unaudited financial information	n/a
(4) Details of long-term incentive schemes	51-69
(5) Waiver of emoluments by a director	n/a
(6) Waiver of future emoluments by a director	n/a
(7) Non pre-emptive issues of equity for cash	n/a
(8) Item (7) in relation to major subsidiary undertakings	n/a
(9) Parent participation in a placing by a listed subsidiary	n/a
(10) Contracts of significance	74
(11) Provision of services by a controlling shareholder	n/a
(12) Shareholder waivers of dividends	70
(13) Shareholder waivers of future dividends	70
(14) Agreements with controlling shareholders	70

Financial instruments

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

Political contributions

Political contributions of the Group during 2015 amounted to nil (2014: nil)

Branches

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

Post balance sheet events

Details can be found in the Financial review on page 31

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 37. The financial position of the Group, its cash flows and liquidity position are described in the Financial review on pages 28 to 31. In addition, notes 1 to 34 to the consolidated financial statements include details of the Group's treasury activities, long-term funding arrangements, financial instruments and hedging activities and exposure to financial risk.

As set out above, the Group has sufficient financial resources which, together with internally generated cash flows, will continue to provide sufficient sources of liquidity to fund its current operations, including its contractual and commercial commitments as set out in note 28 on pages 123 and 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.

By order of the Board

Chris Taylor
Company Secretary

28 July 2015



Statement of Directors' responsibilities

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

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

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

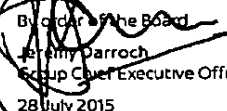
The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies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

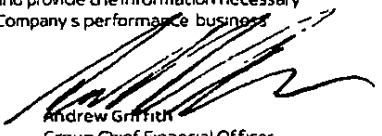
The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibility statement

The Directors confirm that to the best of their knowledge:

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


By order of the Board
Jeremy Darroch
Group Chief Executive Officer
28 July 2015


Andrew Griffith
Group Chief Financial Officer
28 July 2015

Independent Auditor's report

Independent auditor's report to the members of Sky plc

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

- give a true and fair view of the state of the Groups and Parent Company's affairs as at 30 June 2015 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 34. 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

The risks of material misstatement described below are those that had the greatest effect on the audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. During the year the Company acquired Sky Deutschland and Sky Italia introducing new audit risks and additional complexity to the audit. However, since the operating model and business operations of the acquired entities are similar to those of the UK business, the audit risks are similar to those previously identified and reported on. In this year of acquisition, we also focused on the accounting for the business combinations and the alignment of accounting policies across the Group.

Risk	How the scope of our audit responded to the risk
Revenue recognition Sky retails subscription packages to customers which include multiple elements and may include discounts and offers, for example TV subscription, hardware and telephony services sold for a single package price. The allocation of retail subscription revenue to each element of a bundled transaction is complex and requires judgement, as described in the Group's critical accounting policies on page 93. There is a risk that inappropriate allocations could lead to non-compliance with accounting standards and incorrect acceleration or deferral of revenue, principally for new customers who may enter a contract of one to two years duration which may include hardware or installation at discounted prices up front.	<p>We evaluated the group's revenue recognition policy and management's current year assessment in respect of accounting for bundled transactions against relevant accounting standards and guidance.</p> <p>We tested the policy's implementation in each territory by:</p> <ul style="list-style-type: none"> • performing tests to confirm our understanding of the process by which revenue is calculated by the relevant billing systems • performing an assessment of the different product bundles and offers made available to customers in the year and confirming the fair value of different elements of these packages to appropriate evidence of fair value • assessing whether revenue should be accelerated or deferred based on the relative fair value of elements delivered at different points during the contract when compared to the revenue calculated by the relevant billing system and • where differences arose between the revenue calculated by the billing system and the revenue recognition profile calculated in accordance with the Group's revenue recognition policy, we audited the valuation accuracy and completeness of those adjustments recognised to align revenue recognised with the Group's accounting policy.

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 77 that the Group is a going concern. We confirm that:

- we have concluded the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate and
- 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.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Independent Auditor's report (continued)

Risk	How the scope of our audit responded to the risk
<p>Entertainment programming amortisation</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 on page 93</p> <p>There is a risk that the policy selected and applied by management to expense general entertainment programming does not recognise the cost of inventory in line with its expected value to the group. Entertainment programming expense involves more judgement than other programming types due to the number of qualitative factors involved in the selection and application of an appropriate expense profile</p>	<p>The level of expenditure on general entertainment programming varies in each territory and our procedures focused on entertainment spend in the UK and Italy which are significant to the group</p> <p>We examined the method for expensing general entertainment programming inventory taking into account the differing genres of programmes, any significant changes to viewing profiles and industry benchmarks</p> <p>Our procedures included</p> <ul style="list-style-type: none"> • benchmarking management's policy against industry practice • considering the consistency of amortisation profiles applied year on year • testing the design and implementation of controls over the recognition and expensing of general entertainment programming, and • comparing the expense profile determined by management against that which would be indicated by viewing trends (used as a proxy for value from broadcast)
<p>Capital expenditure</p> <p>In the UK, spending on capital projects is material and the assessment and timing of whether assets meet the capitalisation criteria set out in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets requires judgement as set out in the Group's critical accounting policies on page 93. In addition, determining whether there is any indication of impairment of the carrying value of assets being developed also requires judgement</p> <p>As a result, there is a risk that expenditure on intangible and tangible non-current assets in the UK business is inappropriately capitalised against relevant accounting guidance and that assets not yet in use are not recoverable at their carrying value</p>	<p>Our procedures performed in the UK included</p> <ul style="list-style-type: none"> • Tests of the design, implementation and operating effectiveness of controls in respect of the capitalisation of assets and the identification of potential indicators of impairment • Sample tests of capital expenditure projects including an examination of management's assessment as to whether the project spend met the recognition criteria set forth in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets, and reviewing project status reports for the Group's most significant projects to check for indicators of impairment, and • For a sample of capital projects we developed an understanding of the business case and challenged key assumptions and estimates, verifying capital project authorisation, tracing project costs to appropriate evidence

Risk	How the scope of our audit responded to the risk
<p>Acquisition accounting and alignment of accounting policies</p> <p>As described in note 31 the Group acquired 100% of the share capital of Sky Italia and 89.05% of Sky Deutschland on 12 November 2014 for total consideration of £6,866 million. Accounting for business combinations is complex and requires the recognition of both consideration paid and acquired assets and liabilities at the acquisition date at fair values which can involve significant judgement and estimates.</p> <p>In addition, accounting policies of the acquired entities must be aligned to the group's accounting policies, which may involve significant judgement and estimates.</p> <p>In particular, the risks relating to these business combinations are that:</p> <ol style="list-style-type: none"> 1. The consideration used in the purchase price allocation may not be recorded at fair value, given that the consideration paid to Fox (a related party) included the value of Sky plc's stake in the National Geographic Business. 2. That the complexity and selection of input assumptions used in the valuation of intangible assets recognised on acquisition may result in the recognition of intangible assets not representative of fair value. 3. That historical tax losses in Sky Deutschland may not be recoverable and 4. That the accounting policy alignment of Sky Deutschland and Sky Italia to Sky plc's accounting policies is not complete. 	<p>Controls relevant to the acquisition</p> <p>We tested the design and implementation of oversight controls over key outputs of the group's acquisition accounting, including controls over the consideration of accounting treatments for new or complex areas, the oversight exercised by group finance over the harmonisation of accounting policies and the newly implemented controls over the group consolidation.</p> <p>1. Fair valuation of consideration</p> <p>Our procedures included the following:</p> <ul style="list-style-type: none"> • Tests of the cash value of consideration to relevant transaction agreements and bank documentation, and • Auditing the valuation of Sky plc's stake in National Geographic by assessing the expert valuations obtained by management and using our own valuation specialists to challenge the key assumptions. <p>2. Valuation of acquired intangible assets</p> <p>Our procedures included the following:</p> <ul style="list-style-type: none"> • An assessment of the process that management had undertaken to determine the fair value of the acquired intangible assets including understanding the scope of work, qualifications and independence of the valuation specialists engaged by Sky plc, and • Auditing the valuations prepared by management and their experts including: <ul style="list-style-type: none"> - Assessing the key valuation assumptions using our own valuation specialists - Validating and challenging key inputs and data used in the valuation model such as customer numbers-ARPU and churn assumptions by reference to historic data. <p>3. Sky Deutschland historical tax losses</p> <p>Our procedures included utilising our tax specialists in the UK and Germany to audit the estimate of tax losses available in Sky Deutschland, and assessing the judgement involved in recognising the related deferred tax asset.</p> <p>4. Accounting policy alignment</p> <p>Our procedures included:</p> <ul style="list-style-type: none"> • Consideration of the material accounting policies of the acquired entities, the completeness of management's own analysis of the accounting policy differences. • Planning and directing the component auditors of Sky Deutschland and Sky Italia to perform an audit of the balance sheet at the date of acquisition, and • Auditing the valuation of adjustments recorded where alignment was required.

The description of the risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 45. We reported to the Audit Committee that our audit work on these risks was concluded satisfactorily.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, 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 application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in both planning the scope of our audit work and in evaluating the results of our work. The Group's acquisitions in the year have not significantly changed the Group's adjusted profit before tax and we determined audit materiality for the Group to be £50 million (2014: £50 million).

We used profit before tax for our assessment of materiality which is statutory profit before tax after removing the impact of one off items such as profit on disposal of associates and available-for-sale investment, and transaction fees incurred in relation to the acquisitions in the year. Materiality represents 6% of this measure. The Group's adjusted profit before tax measure further excludes the impact of amortisation of acquired intangible assets, integration costs, restructuring costs, derivatives not qualifying for hedge accounting and the tax effect of these adjusting items (see note 10 for management's definition and reconciliation to adjusted profit for further details). Audit materiality of £50 million represents approximately 5% (2014: 6%) of the Group's adjusted profit, 2% (2014: 5%) of equity and 3% (2014: 5%) 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 (2014: £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 group audit was scoped by obtaining an understanding of the Group and its environment, including group-wide controls, and assessing the risk of material misstatement at the group level. Our audit scope focused on the Group's UK and Ireland, German and Austrian, and Italian operations, which were subject to a full scope audit for the year ended 30 June 2015. Our audit scope encompasses all principal business units of the Group and substantially all of the Group's assets, revenue and adjusted profit before tax. The Group audit team directed, supervised and reviewed the work of the component auditors for Germany and Austria and for Italy, which involved issuing detailed instructions, holding regular discussions with component audit teams, making several visits to each location during the period, performing detailed file reviews and attending local audit meetings with management. Audit work completed by component auditors was executed at levels of materiality applicable to each entity which were lower than group materiality.

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 10 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 78 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 also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

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

Scope of the audit of the financial statements

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

William Touche
(Senior Statutory Auditor) for and on behalf of
Deloitte LLP Chartered Accountants and Statutory Auditor
London
United Kingdom
28 July 2015

Consolidated financial statements

Consolidated income statement for the year ended 30 June 2015

	Notes	2015 £m	2014 £m
Continuing Operations			
Revenue	2	9 989	7 450
Operating expense	2	(9 017)	(6 346)
Operating profit		972	1 104
Share of results of joint ventures and associates	15	28	35
Investment income	4	8	26
Finance costs	4	(283)	(140)
Profit on disposal of available-for-sale investments	5	492	-
Profit on disposal of associate	6	299	-
Profit before tax	7	1 516	1 025
Taxation	9	(184)	(205)
Profit for the year from continuing operations		1 332	820
Discontinued Operations			
Profit for the year from discontinued operations	3	620	45
Profit for the year		1 952	865
Profit (loss) for the year attributable to Equity shareholders of the parent company		1 957	865
Non-controlling interests		(5)	-
		1 952	865
Earnings per share from profit for the year (in pence)			
Basic			
Continuing operations	10	79.1p	52.5p
Discontinued operations	10	36.7p	2.9p
Total	10	115.8p	55.4p
Diluted			
Continuing operations	10	78.2p	52.0p
Discontinued operations	10	36.2p	2.9p
Total	10	114.4p	54.9p

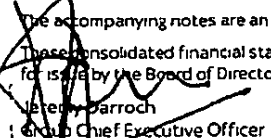
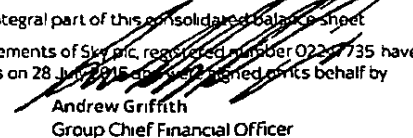
The accompanying notes are an integral part of this consolidated income statement

Consolidated statement of comprehensive income for the year ended 30 June 2015

	2015 £m	2014 £m
Profit for the year	1 952	865
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	36	104
Gain (loss) on cash flow hedges	276	(176)
Tax on cash flow hedges	(57)	39
Exchange differences on translation of foreign operations net of net investment hedges	(213)	-
	42	(33)
Amounts reclassified and reported in the income statement		
(Loss) gain on cash flow hedges	(174)	137
Tax on cash flow hedges	37	(31)
Transfer to income statement on disposal of available-for-sale investment (see note 5)	(492)	-
Transfer to income statement on disposal of associate	(38)	-
	(667)	106
Other comprehensive (loss) income for the year (net of tax)	(625)	73
Total comprehensive income for the year	1 327	938
Total comprehensive income for the year attributable to		
Equity shareholders of the parent company	1 345	938
Non-controlling interests	(18)	-
	1 327	938

Consolidated balance sheet as at 30 June 2015

	Notes	2015 £m	2014 £m
Non-current assets			
Goodwill	12	4160	1019
Intangible assets	13	4 084	810
Property plant and equipment	14	1 646	1 088
Investments in joint ventures and associates	15	133	173
Available-for-sale investments	16	31	533
Deferred tax assets	17	175	31
Programme distribution rights	18	31	20
Trade and other receivables	19	86	7
Derivative financial assets	23	453	195
		10 799	3 876
Current assets			
Inventories	18	847	546
Trade and other receivables	19	1 096	635
Current tax assets		8	-
Short-term deposits	23	1 100	295
Cash and cash equivalents	23	1 378	1 082
Derivative financial assets	23	130	15
		4 559	2 573
Total assets		15 358	6 449
Current liabilities			
Borrowings	22	494	11
Trade and other payables	20	3 430	2 286
Current tax liabilities		154	128
Provisions	21	103	48
Derivative financial liabilities	23	23	46
		4 204	2 519
Non-current liabilities			
Borrowings	22	7 418	2 658
Trade and other payables	20	94	56
Provisions	21	77	14
Derivative financial liabilities	23	60	129
Deferred tax liabilities	17	281	1
		7 930	2 858
Total liabilities		12 134	5 377
Share capital	25	860	781
Share premium	26	2 704	1 437
Reserves	26	(399)	(1 146)
Total equity attributable to equity shareholders of the parent company	26	3 165	1 072
Total equity attributable to non-controlling interests		59	-
Total liabilities and equity		15 358	6 449

The accompanying notes are an integral part of this consolidated balance sheet.
These consolidated financial statements of Sky plc, registered number 0224735 have been approved and authorised for issue by the Board of Directors on 28 June 2015 and signed on its behalf by
 Jeremy Darroch
 Group Chief Executive Officer
 Andrew Griffith
 Group Chief Financial Officer

Consolidated financial statements (continued)

Consolidated cash flow statement for the year ended 30 June 2015

	Notes	2015 £m	2014 £m
Continuing operations			
Cash flows from operating activities			
Cash generated from operations	27	2 080	1 696
Interest received and dividends from available-for-sale investments		9	27
Taxation paid		(219)	(229)
Net cash from operating activities		1 870	1 494
Cash flows from investing activities			
Dividends received from joint ventures and associates		25	32
Net funding to joint ventures and associates		(10)	(6)
Proceeds on disposal of available-for-sale investment		546	-
Purchase of property plant and equipment		(385)	(238)
Purchase of intangible assets		(357)	(302)
Purchase of subsidiaries (net of cash and cash equivalents purchased)		(6 340)	(20)
Purchase of available-for-sale investments		(88)	(7)
(Increase) decrease in short-term deposits		(805)	300
Net cash used in investing activities		(7 414)	(241)
Cash flows from financing activities			
Net proceeds from borrowings		5 364	-
Repayment of borrowings		(272)	-
Repayment of obligations under finance leases		(10)	(4)
Proceeds from disposal of shares in Employee Share Ownership Plan (ESOP)		10	11
Purchase of own shares for ESOP		(12)	(164)
Purchase of own shares for cancellation		-	(266)
Issue of own shares		1 346	-
Interest paid		(246)	(137)
Purchase of non-controlling interests		(328)	-
Dividends paid to shareholders of the parent		(549)	(485)
Net cash from (used in) financing activities		5 303	(1 045)
Effect of foreign exchange rate movements		(67)	-
Net (decrease) increase in cash and cash equivalents from continuing operations		(308)	208
Net increase in cash and cash equivalents from discontinued operations		604	59
Cash and cash equivalents at the beginning of the year		1 082	815
Cash and cash equivalents at the end of the year		1 378	1 082

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 2015

	Attributable to equity shareholders of the parent company							Total share- holders equity £m	Non- controlling interests £m	Total equity £m
	Share capital £m	Share premium £m	ESOP reserve £m	Hedging reserve £m	Available- for-sale reserve £m	Other reserves £m	Retained earnings £m			
At 1 July 2013	797	1,437	(147)	11	351	439	(1,876)	1,012	-	1,012
Profit for the year	-	-	-	-	-	-	865	865	-	865
Revaluation of available-for-sale investments	-	-	-	-	104	-	-	104	-	104
Recognition and transfer of cash flow hedges	-	-	-	(39)	-	-	-	(39)	-	(39)
Tax on items taken directly to equity	-	-	-	8	-	-	-	8	-	8
Total comprehensive income for the year	-	-	-	(31)	104	-	865	938	-	938
Share-based payment	-	-	2	-	-	-	(95)	(93)	-	(93)
Tax on items taken directly to equity	-	-	-	-	-	-	9	9	-	9
Share buy-back programme	-	-	-	-	-	-	-	-	-	-
- Purchase of own shares for cancellation	(16)	-	-	-	-	16	(250)	(250)	-	(250)
- Financial liability for close period purchases	-	-	-	-	-	-	(59)	(59)	-	(59)
Dividends	-	-	-	-	-	-	(485)	(485)	-	(485)
At 30 June 2014	781	1,437	(145)	(20)	455	455	(1,891)	1,072	-	1,072
Profit for the year	-	-	-	-	-	-	1,957	1,957	(5)	1,952
Exchange differences on translation of foreign operations net of net investment hedges	-	-	-	-	-	(200)	-	(200)	(13)	(213)
Revaluation of available-for-sale investments	-	-	-	-	36	-	-	36	-	36
Transfer to income statement on disposal of associate	-	-	-	-	-	(38)	-	(38)	-	(38)
Transfer to income statement on disposal of available-for-sale investment (see note 5)	-	-	-	-	(492)	-	-	(492)	-	(492)
Transfer on disposal of subsidiaries	-	-	-	-	-	(97)	97	-	-	-
Recognition and transfer of cash flow hedges	-	-	-	102	-	-	-	102	-	102
Tax on items taken directly to equity	-	-	-	(20)	-	-	-	(20)	-	(20)
Total comprehensive income for the year	-	-	-	82	(456)	(335)	2,054	1,345	(18)	1,327
Share-based payment	-	-	20	-	-	-	69	89	-	89
Issue of own equity shares	79	1,267	-	-	-	-	-	1,346	-	1,346
Non-controlling interests arising on purchase of subsidiaries	-	-	-	-	-	-	-	-	191	191
Tax on items taken directly to equity	-	-	-	-	-	-	17	17	-	17
Share buy-back programme	-	-	-	-	-	-	-	-	-	-
- Reversal of financial liability for close period purchases	-	-	-	-	-	-	59	59	-	59
Dividends	-	-	-	-	-	-	(549)	(549)	-	(549)
Purchase of non-controlling interests	-	-	-	-	-	-	(214)	(214)	(114)	(328)
At 30 June 2015	860	2,704	(125)	62	(1)	120	(455)	3,165	59	3,224

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

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

Governance

Financial statements

Shareholder information

Notes to the consolidated financial statements

1 Accounting policies

Sky plc (the Company, formerly British Sky Broadcasting Group plc) 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.

The Group maintains a 52 or 53 week fiscal year ending on the Sunday nearest to 30 June in each year. In fiscal year 2015, this date was 28 June 2015, this being a 52 week year (fiscal year 2014: 29 June 2014: 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. Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions are eliminated in preparing the consolidated financial statements.

ii) Associates and joint ventures

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

iii) Non-controlling interests

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

d) Goodwill

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

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

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

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

i) Intangible assets

Research expenditure is recognised in operating expense in the income statement as the expenditure is incurred. Development expenditure (relating to the application of research knowledge to plan or design new or substantially improved products for sale or use within the business) is recognised as an intangible asset from the point 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

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

For acquired customer contracts and related customer relationships the assets are amortised on either a reducing balance basis or on a straight-line basis or over estimated useful life based on estimated customer retention rate principally being a period of between 1 and 15 years as appropriate

For all other acquired and internally generated intangible assets the assets are amortised on a straight-line basis principally being a period of between 1 and 25 years as appropriate

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

ii Property plant and equipment

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

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

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

- Freehold buildings 25 to 40 years
- Equipment furniture and fixtures 3 to 20 years
- Set-top boxes 5 to 7 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 Other derivatives which hedge changes in fair value of fixed rate financial instruments and meet the requirements of IAS 39 are designated as fair value hedges and are subject to cash flow hedge accounting or fair value hedge accounting respectively Certain borrowings and derivatives have been designated as net investment hedges of the Group's foreign operations for movements in the spot foreign exchange rate see section r) for further details Certain other derivatives held by the Group do not meet the qualifying criteria for recognition for accounting purposes as hedges despite this being their economic function Changes in the fair values of these derivatives are recognised immediately in the income statement The Group does not hold or issue derivatives for speculative purposes

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

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

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

Notes to the consolidated financial statements (continued)

1 Accounting policies (continued)

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

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

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

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

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

g) Inventories

i Acquired and commissioned television programme 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 28). 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, over the period the Group utilises the programming rights, taking into account the circumstances primarily as described below. These circumstances may change or evolve over time and as such, the Group regularly reviews and updates the method used to recognise programming expense.

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

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

ii Programme distribution rights

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

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

iv Raw materials, consumables and goods held for resale

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

h) Financial assets and liabilities

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

i) Available-for-sale investments

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

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

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

ii) Trade and other receivables

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

iii) Cash and cash equivalents

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

iv) Short-term deposits

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

v) Trade and other payables

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

vi) Borrowings

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

i) Impairment

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

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

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

j) Provisions

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

k) ESOP reserve

Where the 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:

- Subscription revenue includes revenue from residential and commercial subscribers to TV and communication products including over-the-top (OTT) subscriptions and income from set-top box sales and installation, service calls and warranties. Revenue is recognised net of any discount given when the goods or services are provided.
- Transactional revenue includes the purchase of physical content. OTT passes, pay per view and buy to keep content by residential and commercial customers. Transactional revenue is recognised net of any discount given when the relevant goods or service are provided.
- Wholesale and syndication revenue includes revenue from the sale of channels and programmes across other platforms and internationally. 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. Syndication revenues are earned from the production of programming and the distribution of programming rights. Production revenue is recognised on a stage of completion basis and distribution revenue is recognised when the contract is signed and the content is available for exploitation.
- Advertising sales revenue is recognised when the advertising is broadcast. Revenue generated from airtime sales where Sky acts as an agent on behalf of third parties is recognised on a net commission basis.
- Other revenue principally includes income from technical platform services and the provision of network services. Other revenue is recognised net of any discount given when the relevant goods or service are provided.

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

m) Employee benefits

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

Where the Group provides pensions to eligible employees through defined contribution schemes, the amount charged to the income statement in the year represents the cost of contributions payable by the Group to the schemes in exchange for employee services rendered in that year. The assets of the schemes are held independently of the Group.

Liabilities in relation to employee obligations which are economically similar to defined benefit pension schemes are accounted for as such under IAS 19.

Termination benefits are recognised as a liability at the earlier of when the Group can no longer withdraw the offer of the termination benefit and when the Group recognises any related restructuring costs, such termination being before the normal retirement date or as the result of an offer to encourage voluntary redundancy.

The Group issues equity-settled share-based payments to certain employees which must be measured at fair value and recognised as an expense in the income statement, with a corresponding increase in equity. The fair values of these payments are measured at the dates of grant using option-pricing models, taking into account the terms and conditions upon which the awards are granted. The fair value is recognised over the period during which employees become unconditionally entitled to the awards subject to the Group's estimate of the number of awards which will be forfeited either due to employees leaving the Group prior to vesting or due to non-market based performance conditions not being met. Where an award has market-based performance conditions, the fair value of the award is adjusted for the probability of achieving these via the option pricing model. The total amount recognised in the income statement as an expense is adjusted to reflect the actual number of awards that vest, except where forfeiture is due to the failure to meet market-based performance measures. In the event of a cancellation, whether by the Group or by a participating employee, the compensation expense that would have been recognised over the remainder of the vesting period is recognised immediately in 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.

Sub-lease income from operating leases is recognised on a straight-line basis over the term of the lease.

When the Group is a lessee

Assets held under finance leases are recognised as assets of the Group at their fair value on the date of acquisition or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reductions to the lease obligations so as to achieve a constant rate of interest on the remaining balance of the liability.

The lease expense arising from operating leases is charged to the income statement on a straight-line basis over the term of the lease. Benefits received and receivable as incentives to enter into operating leases are recorded on a straight-line basis over the lease term.

When the Group is a lessor

Set-top boxes which are provided to subscribers under operating lease arrangements are recognised as assets within property, plant and equipment. The set-top boxes remain in the economic ownership of the Group for the duration of the lease and are depreciated over their useful economic lives of between five and seven years.

o) Taxation, including deferred taxation

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

Deferred tax assets and liabilities are recognised using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the balance sheet and the corresponding tax bases used in the computation of taxable profit. Temporary differences arising from goodwill and, except in a business combination, the initial recognition of assets or liabilities that affect neither accounting profit nor taxable profit are not provided for. Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates that have been enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and adjusted to reflect an amount that is probable to be realised based on the weight of all available evidence. Deferred tax is calculated at the rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax assets and liabilities are not discounted. Deferred tax is charged or credited in the income statement, except where it relates to items charged or credited directly to equity in which case the deferred tax is also included within equity. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

p) Distributions to equity shareholders

Dividends are recognised in the retained earnings reserve in the year in which they are declared.

The cost of repurchasing the Group's own equity shares for cancellation ('share buy-backs') is recorded in retained earnings. In addition, the nominal cost of shares repurchased is deducted from share capital and a matching credit is recorded in the capital redemption reserve.

q) Earnings per share

Basic earnings or loss per share represents the profit or loss for the year attributable to equity shareholders of the parent company divided by the weighted average number of ordinary shares in issue during the year, excluding the weighted average number of ordinary shares purchased by 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 attributable to equity shareholders of the parent company divided by the weighted average number of ordinary shares used to calculate basic earnings, plus the weighted average number of dilutive shares resulting from share options where the inclusion of these would not be antidilutive.

r) Foreign currency translation

Trading activities denominated in foreign currencies are recorded in the functional currency of the entity at applicable monthly exchange rates. Monetary assets, liabilities and commitments denominated in foreign currencies at the balance sheet date are reported at the rates of exchange at that date. Non-monetary assets and liabilities denominated in foreign currencies are translated to the functional currency of the entity at the exchange rate prevailing at the date of the initial transaction. Gains and losses from the retranslation of monetary assets and liabilities are included net in profit for the year.

The Group's presentational currency is pounds sterling. Assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the applicable monthly average exchange rates. Any exchange differences arising are classified as equity and transferred to other reserves. Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated accordingly. Gains and losses accumulated in the translation reserve are included in the income statement when the foreign operation is disposed of.

Gains and losses on those instruments designated as hedges of the net investments in foreign operations are recognised in equity to the extent that the hedging relationship is effective. These amounts are included in exchange differences on translation of foreign operations as stated in the statement of comprehensive income. Gains and losses relating to hedge ineffectiveness are recognised immediately in the income statement for the period.

s) Reportable segments

IFRS 8 Operating Segments requires the segment information presented in the financial statements to be that which is used internally by the chief operating decision maker to evaluate the performance of the business and decide how to allocate resources. The Group has identified the Board of Directors as its chief operating decision maker and the segment information presented in the financial statements is consistent with the internal reporting reviewed by the Board.

t) Accounting Standards: interpretations and amendments to existing standards that are not yet effective

The Group has not yet adopted certain new standards, amendments and interpretations to existing standards which have been published but are only effective for our accounting periods beginning on or after 1 July 2015 or later periods. These new pronouncements are listed below:

- Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations (effective 1 January 2016)*
- Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation (effective 1 January 2016)*
- Annual Improvements 2012-2014 cycle (effective 1 July 2016)*
- 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.

i) Revenue (see note 2)

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

ii) Taxation, including deferred taxation (see notes 9 and 17)

The Group's 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.

Notes to the consolidated financial statements (continued)

1 Accounting policies (continued)

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 12)

Judgement is required in determining the fair value of identifiable assets, liabilities and contingent assets and liabilities assumed in a business combination and the fair value of the consideration payable. Calculating the fair values involves the use of significant estimates and assumptions, including expectations about future cash flows, discount rates and the lives of assets following purchase.

Judgement is required in evaluating whether any impairment loss has arisen against the carrying amount of goodwill. This may require calculation of the recoverable amount of cash generating units to which the goodwill is associated. Such a calculation may involve estimates of the net present value of future forecast cash flows and selecting an appropriate discount rate. Alternatively, it may involve a calculation of the fair value less costs to sell of the applicable cash generating unit.

Judgement is required in identifying the cash generating units to which the goodwill is associated for the purposes of goodwill impairment testing. Identification of cash generating units involves an assessment of whether assets or groups of assets generate cash flows that are largely independent of other assets or groups of assets. Goodwill is then allocated to each identified cash generating unit that is expected to benefit from the synergies of the business combinations from which goodwill has arisen.

iv Intangible assets and property, plant and equipment (see notes 13 and 14)

The assessment of the useful economic lives and the method of amortising these assets requires judgement. Depreciation and amortisation are charged to the income statement based on the useful economic life selected, which requires an estimation of the period and profile over which the Group expects to consume the future economic benefits embodied in the assets. The Group reviews its useful economic lives on at least an annual basis.

Determining whether the carrying amount of these assets has any indication of impairment also requires judgement. If an indication of impairment is identified, further judgement is required to assess whether the carrying amount can be supported by the net present value of future cash flows forecast to be derived from the asset. This forecast involves cash flow projections and selecting the appropriate discount rate.

Assessing whether assets meet the required criteria for initial capitalisation requires judgement. This requires a determination of whether the assets will result in future benefits to the Group. In particular, internally generated intangible assets must be assessed during the development phase to identify whether the Group has the ability and intention to complete the development successfully.

v Programming inventory for broadcast (see note 18)

The key area of accounting for programming inventory for broadcast that requires judgement is the assessment of the appropriate profile over which to amortise general entertainment programming. This assessment requires the Group to form an expectation of:

- the time period over which the programme is expected to be utilised – the number of times a programme will be broadcast on the Group's channels;
- the relative value associated with each broadcast; and
- the relative value associated with linear channel and non-linear programme rights.

In order to perform this assessment, the Group considers the following factors:

The time period and frequency with which the programme is expected to be utilised on the Group's linear channels and non-linear services. This is usually based on a combination of the actual period specified in the contract for the programme rights, the initial expectation of when airings will be scheduled and the alternative programming available to the Group within this period.

- Expectations as to the number of viewers a programme is likely to achieve for each individual broadcast on the Group's linear channels over the contractual broadcast period. The number of viewers per broadcast directly influences advertising revenue for channels, although this consideration is partly influenced by the Group's assessment of the potential impact of the publicly available information on its competitors, scheduling intentions against planned broadcasts.

The potential benefits associated with utilising programming. Certain high-profile or high-quality programming titles have additional value to the Group as they attract new TV customers and encourage retention of existing TV customers. As such, these programmes are able to retain more value throughout their licence period than would be indicated when considering the expected customer viewing and consumption numbers alone.

- The relative value associated with linear channel and non-linear rights are assessed based on the manner in which the Group expects to utilise the programming rights and the relative value perceived by customers for the Group's channels and services. Those relative values may also differ based on the type and genre of programme. Such values are reviewed by the Group against current and expected future trends in customer viewing behaviour for the Group's programming and channels. The value apportioned to non-linear rights (in addition to any separately acquired non-linear rights) is amortised on a straight-line basis over the period of the broadcast rights, as the Group considers this to be the profile most closely aligned to its consumption of those rights.

2 Operating Segments

On 12 November 2014 the Group purchased operations in Italy, Germany and Austria and as a result has reassessed the number of reportable operating segments.

The Group now has three reportable segments that are defined by geographic area to reflect how the Group's operations are monitored and managed. The reportable segments presented reflect the Group's management and reporting structure as viewed by the Board of Directors, which is considered to be the Group's chief operating decision maker.

Reportable segment	Description
UK & Ireland	The activities and operations of the pay TV home communications and adjacent businesses in the UK and Ireland
Italy	The activities and operations of the pay TV and adjacent businesses in Italy
Germany & Austria	The activities and operations of the pay TV and adjacent businesses in Germany and Austria

Segmental income statement for the year ended 30 June 2015

	Results for full year					Statutory Group Total £m
	UK & Ireland £m	Italy £m	Germany & Austria £m	Adjusting Items & Eliminations £m	Italy and Germany & Austria pre-acquisition £m	
Continuing Operations						
Subscription	6,596	1,845	1,256	-	(1,179)	8,518
Transactional	120	35	18	-	(20)	153
Wholesale and syndication	515	16	20	(1)	(9)	541
Advertising	510	162	44	-	(67)	649
Other	95	28	39	(9)	(25)	128
Revenue	7,836	2,086	1,377	(10)	(1,300)	9,989
Inter-segment revenue	(16)	-	-	10	6	-
Revenue from external customers	7,820	2,086	1,377	-	(1,294)	9,989
Programming	(2,865)	(1,258)	(764)	(9)	724	(4,172)
Direct network costs	(840)	-	-	-	-	(840)
Sales, general and administration	(2,781)	(767)	(624)	(377)	544	(4,005)
Operating expense	(6,486)	(2,025)	(1,388)	(386)	1,268	(9,017)
EBITDA	1,740	216	74	(163)	(129)	1,738
Depreciation and amortisation	(390)	(155)	(85)	(233)	97	(766)
Operating profit (loss)	1,350	61	(11)	(396)	(32)	972
Share of results of joint ventures and associates						28
Investment income						8
Finance costs						(283)
Profit on disposal of available-for-sale investments						492
Profit on disposal of associate						299
Profit before tax						1,516

Notes to the consolidated financial statements (continued)

Segmental income statement for the year ended 30 June 2014

	Results for full year					Statutory Group Total £m
	UK & Ireland £m	Italy £m	Germany & Austria £m	Adjusting Items £m	Italy and Germany & Austria full year £m	
Continuing Operations						
Subscription	6 278	1 850	1 144	-	(2 994)	6 278
Transactional	86	37	19	-	(56)	86
Wholesale and syndication	433	65	26	15	(91)	448
Advertising	487	168	35	-	(203)	487
Other	151	20	38	-	(58)	151
Revenue	7 435	2 140	1 262	15	(3 402)	7 450
Inter-segment revenue	(61)	-	-	-	61	-
Revenue from external customers	7 374	2 140	1 262	15	(3 341)	7 450
Programming	(2 656)	(1 271)	(735)	(1)	2 006	(2 657)
Direct network costs	(816)	-	-	(29)	-	(845)
Sales general and administration	(2 760)	(830)	(584)	(84)	1 414	(2 844)
Operating expense	(6 232)	(2 101)	(1 319)	(114)	3 420	(6 346)
EBITDA	1 606	224	18	(70)	(242)	1 536
Depreciation and amortisation	(403)	(185)	(75)	(29)	260	(432)
Operating profit (loss)	1 203	39	(57)	(99)	18	1 104
Share of results of joint ventures and associates						35
Investment income						26
Finance costs						(140)
Profit before tax						1 025

Results for each segment are presented on an adjusted basis. A reconciliation of statutory to adjusted profit is shown in note 10 which also includes a description of the adjusting items. Transactions between segments are recorded based on estimated market prices.

To provide a more relevant presentation, management has chosen to reanalyse the revenue and operating expense categories from those previously reported. The revenue categories have been changed to reflect the increasing breadth of the business and a number of operating expense sub-categories have been combined within a single Sales general and administration (SG&A) operating expense line. As such, certain prior period revenues and costs within the 2014 statutory Group total comparatives have been reclassified as set out below.

Prior year revenues of £85 million and £20 million previously included in Installation hardware and service and Other respectively, are now included in Subscription revenue. Transactional revenue includes £82 million and £4 million relating to Sky Store and sports and wholesale pay per view which were previously included in Retail subscription and Wholesale subscription respectively. Revenues of £15 million and £2 million relating to Sky IQ and search revenues are now included in Advertising and Wholesale and syndication respectively having previously been included in Other. Sports syndication and Sky Vision revenues of £28 million are now included in Wholesale and syndication, having previously been included in Other. Prior year expense of £2 million previously included in Programming is now included in SG&A.

Revenue of £7 387 million (2014: £6 972 million) arises from goods and services provided to the UK and revenue of £2 602 million (2014: £478 million) arises from services provided to other countries. Non-current assets located in the UK were £10 148 million (2014: £3 873 million) and non-current assets located outside the UK were £651 million (2014: £3 million).

Included within operating expenses for the year ended 30 June 2015 are:

- Costs of £10 million relating to the integration of Sky Deutschland and Sky Italia in the enlarged Group recognised in SG&A.
- Costs of £50 million relating to advisory and transaction fees incurred on the purchase of Sky Deutschland and Sky Italia recognised in SG&A.
- Costs of £105 million relating to corporate restructuring and efficiency programmes including an impairment of £2 million in relation to fixed assets. These costs have been recognised as follows:
 - £10 million within Programming
 - £95 million within SG&A
- Costs of £231 million relating to the amortisation of acquired intangible assets recognised in SG&A.

Included within wholesale and syndication 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.

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

- Costs of £49 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:
 - £29 million within direct networks
 - £20 million within SG&A
- 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:
 - £1 million within programming
 - £39 million within SG&A
- 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 SG&A.
- Costs of £23 million in relation to the amortisation of acquired intangible assets recognised in SG&A.

3 Discontinued operations

On 19 March 2015 the Group completed the sale of a controlling stake in its online betting and gaming business Sky Betting & Gaming (Sky Bet) to funds advised by CVC Capital Partners and members of the Sky Bet management team. Sky has retained an equity stake of 20% post completion in Sky Bet.

Sky Bet represented a separate major line of business for the Group. As a result its operations have been treated as discontinued for the year ended 30 June 2015 and the year ended 30 June 2014. A single amount is shown on the face of the consolidated income statement comprising the post-tax result of discontinued operations and the post-tax profit recognised on the disposal of the discontinued operation. A pre-tax profit of £600 million arose on the disposal of Sky Bet, being the net proceeds of disposal less the carrying amount of Sky Bet's net liabilities and attributable goodwill.

The results of discontinued operations, which have been included in the consolidated income statement, were as follows:

	2015 ¹ To 19 March £m	2014 Full year £m
Revenue	158	182
Operating expense	(128)	(125)
Operating profit	30	57
Profit on disposal	600	-
Profit before tax	630	57
Attributable tax expense ²	(10)	(12)
Profit for the year from discontinued operations	620	45

1 Results for the year ended 30 June 2015 include the results of discontinued operations up to the date of disposal (19 March 2015).

2 Attributable tax expense comprises £9 million (2014: £12 million) in respect of operating activities and £1 million (2014: nil) arising as a result of the disposal.

The net liabilities of Sky Bet at the date of disposal were:

	19 March 2015 £m
Non-current assets	
Property, plant and equipment	9
Deferred tax assets	1
	10
Current assets	
Trade and other receivables	5
Cash and cash equivalents	30
	35
Total assets	45
Current liabilities	
Trade and other payables	58
Provisions	6
	64
Total liabilities	64
Net liabilities	19
Total consideration	730
Net liabilities disposed	19
Attributable goodwill	(149)
Profit on disposal	600
Consideration received in cash and cash equivalents	598
Less: cash and cash equivalents disposed of	(30)
Net cash inflow arising on disposal	568

During the year, cash flows attributable to Sky Bet comprised a net cash inflow in respect of operating activities of £44 million (2014: inflow of £62 million) and a net cash inflow in respect of investing activities of £560 million (2014: outflow of £3 million).

Notes to the consolidated financial statements

(continued)

4 Investment income and finance costs

	2015 £m	2014 £m
Investment income		
Interest on cash, cash equivalents and short-term deposits	8	4
Dividends received from available-for-sale investments	-	22
	8	26
Finance costs		
- Interest payable and similar charges		
Facility related costs	(44)	(2)
Guaranteed Notes (see note 22)	(214)	(126)
Finance lease interest	(7)	(7)
	(265)	(135)
- Other finance income (expense)		
Remeasurement of borrowings and borrowings-related derivative financial instruments (not qualifying for hedge accounting)	(16)	(2)
Remeasurement of other derivative financial instruments (not qualifying for hedge accounting)	(3)	(4)
Gain (loss) arising on derivatives in a designated fair value hedge accounting relationship	7	(31)
(Loss) gain arising on adjustment for hedged item in a designated fair value hedge accounting relationship	(6)	32
	(18)	(5)
	(283)	(140)

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 3.1% (2014: 4.9%) to expenditure on such assets. The amount capitalised in the current year amounted to £9 million (2014: £4 million). Tax relief in the current year on capitalised interest totals £0.4 million (2014: £0.6 million).

Finance costs include £57 million incurred in connection with £6.6 billion of firm underwritten debt facilities and other associated transaction costs relating to the purchase of Sky Deutschland and Sky Italia. These facilities including the previous revolving credit facility (RCF) have been repaid or cancelled during the period with the exception of a £1 billion RCF which remains undrawn.

5 Profit on disposal of available-for-sale investments

On 17 July 2014, the Group sold a shareholding of 6.4% in ITV plc, consisting of 259,820,065 ITV shares for an aggregate consideration of £481 million. A profit of £429 million was realised on disposal, being the excess of the consideration above the previously written-down value of the shares for accounting purposes (£52 million).

On 5 November 2014, the Group sold a further shareholding of 0.8% in ITV plc, consisting of 31,864,665 ITV shares for an aggregate consideration of £65 million. A profit of £58 million was realised on disposal, being the excess of the consideration above the previously written-down value of the shares for accounting purposes (£7 million).

The Group recognised a gain of £5 million as a result of measuring to fair value its equity interest in Sky Deutschland held prior to the acquisition. For further details see note 31.

6 Profit on disposal of associate

On 12 November 2014, the Group transferred a shareholding of 21% in NGC Network International LLC and a shareholding of 21% in NGC Network Latin America LLC to 21st Century Fox Inc. (21st Century Fox) for an aggregate consideration of £410 million as part of the purchase of Sky Italia (see note 31 for further detail). A profit of £299 million was realised on disposal.

7 Profit before taxation

Profit before taxation is stated after charging

	2015 £m	2014 £m
Cost of inventories recognised as an expense	3,331	2,208
Depreciation, impairment and losses (profits) on disposals of property, plant and equipment	297	204
Amortisation, impairment and losses (profits) on disposals of intangible assets	469	228
Rentals on operating leases and similar arrangements	70	49

Foreign exchange

Foreign exchange gains recognised in the income statement during the year amounted to £14 million (2014: losses of £2 million).

Audit fees

An analysis of auditor's remuneration is as follows

	2015 £m	2014 £m
Fees payable to the Company's auditor for the audit of the Company's annual accounts	20	13
Fees payable to the Company's auditor for the audit of the Company's subsidiaries	03	03
Total audit fees	23	16
Audit-related services	02	02
Taxation services	15	05
Other assurance services	08	01
Other advisory services	114	-
Transaction services	19	06
Total non-audit fees	158	14

Non-audit fees payable to the Company's auditor in the UK principally comprise transaction related services including reporting accountant services, comfort procedures in relation to debt issuance and programmes and acquisition-related tax services. Other assurance services principally relate to The Bigger Picture assurance and the interim review.

Deloitte Germany and Deloitte Italy provided non-audit services to Sky Deutschland and Sky Italia prior to their acquisition by the Group on 12 November 2014. These principally comprised technology consulting and advisory services. As described in the Report of the Audit Committee, a comprehensive review and reorganisation of these services was performed following the acquisition date in order to ensure the continued independence of Deloitte LLP as auditors of the Group. The total fees for non-audit services provided to Sky Deutschland and Sky Italia in the full year ended 30 June 2015 were £15.7 million and the table above includes those services provided to Sky Deutschland and Sky Italia by Deloitte since 12 November 2014.

Total audit fees payable to the Group's component auditors of Sky Deutschland and Sky Italia in the full year ended 30 June 2015 were £11 million. The Group's component auditors of Sky Deutschland and Sky Italia also provided non-audit services to the Group during the year, none of which compromised their independence in respect of their reporting to the Group's auditor and their respective local reporting requirements.

8 Employee benefits and key management compensation

a) Group employee benefits

	2015 £m	2014 £m
Wages and salaries	1040	844
Social security costs	159	101
Costs of employee share option schemes ¹	96	60
Contributions to the Group's pension schemes ²	39	39
	1334	1044

¹ £91 million charge relates to equity-settled share-based payments (2014: £60 million charge) and £5 million charge relates to cash-settled share-based payments (2014: nil).

² The Group operates defined contribution pension schemes. The pension charge for the year represents the cost of contributions payable by the Group to the schemes during the year. The amount payable to the schemes by the Group at 30 June 2015 was £5 million (2014: £5 million).

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

	2015 Number	2014 Number
Channels and services	5089	3477
Customer service, sales and marketing	15487	13035
Transmission and technology	4156	3257
Management and administration	2328	1072
	27060	20841

There are approximately 921 (2014: 497) temporary staff included within the average number of full-time equivalent persons employed by the Group.

b) Key management compensation (see note 30d)

	2015 £m	2014 £m
Short-term employee benefits	6	6
Share-based payments	8	7
	14	13

Post-employment benefits were less than £1 million (2014: less than £1 million). The amounts disclosed for key management compensation are included within the disclosures in note 8(a).

Notes to the consolidated financial statements

(continued)

9 Taxation

a) Taxation recognised in the income statement

	2015 £m	2014 £m
Current tax expense		
Current year - UK	229	218
Adjustment in respect of prior years - UK	(39)	(31)
Current year - Overseas	62	2
Total current tax charge	252	189
Deferred tax expense		
Origination and reversal of temporary differences - UK	(21)	5
Adjustment in respect of prior years - UK	21	11
Origination and reversal of temporary differences - Overseas	(67)	-
Adjustment in respect of prior years - Overseas	(1)	-
Total deferred tax (credit) charge	(68)	16
Taxation	184	205

b) Taxation recognised directly in equity

	2015 £m	2014 £m
Current tax credit relating to share-based payments	(2)	(9)
Deferred tax credit relating to share-based payments	(15)	-
Deferred tax charge (credit) relating to cash flow hedges	20	(8)
	3	(17)

c) Reconciliation of effective tax rate

The tax expense for the year is lower (2014: lower) than the expense that would have been charged using the blended rate of corporation tax in the UK (20.75%) applied to profit before tax. The applicable enacted or substantively enacted effective rate of UK corporation tax for the year was 20.75% (2014: 22.5%). The differences are explained below.

	2015 £m	2014 £m
Profit before tax from continuing operations	1516	1025
Profit before tax multiplied by blended rate of corporation tax in the UK of 20.75% (2014: 22.5%)	315	231
Effects of:		
Different statutory tax rates of overseas jurisdictions	(12)	-
Disposal of Group investments	(125)	-
Net effect of other non-taxable/non-deductible items	28	(8)
Effect of tax rate changes	(3)	2
Adjustments in respect of prior years	(19)	(20)
Taxation	184	205

10 Earnings per share

The weighted average number of shares for the year was

	2015 Millions of shares	2014 Millions of shares
Ordinary shares	1706	1581
ESOP trust ordinary shares	(16)	(19)
Basic shares	1690	1562
Dilutive ordinary shares from share options	21	14
Diluted shares	1,711	1,576

There are no share options (2014: 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 attributable to equity shareholders of the parent company 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.

	2015 £m	2014 £m
Profit from continuing operations	1332	820
Loss attributable to non-controlling interests	5	-
Profit from continuing operations attributable to equity shareholders of the parent company	1337	820
Profit from discontinued operations	620	45
Profit attributable to equity shareholders of the parent company	1957	865

	2015 £m	2014 £m
Reconciliation from profit from continuing operations attributable to equity shareholders of the parent company to adjusted profit for the year attributable to equity shareholders of the parent company		
Profit for the year from continuing operations attributable to equity shareholders of the parent company	1337	820
Advisory and transaction fees and finance costs incurred on the purchase of Sky Deutschland and Sky Italia (see note 31)	107	-
Costs relating to corporate restructuring and efficiency programmes (see note 2)	105	40
Costs relating to the integration of Sky Deutschland and Sky Italia in the enlarged Group (see note 31)	10	-
Costs relating to the integration of the O2 consumer broadband and fixed-line telephony business	-	49
Net credit received following termination of an escrow agreement with a current wholesale operator	-	(13)
Amortisation of acquired intangible assets	228	23
Profit on disposal of available-for-sale investments (see note 5)	(492)	-
Profit on disposal of associate (see note 6)	(299)	-
Remeasurement of all derivative financial instruments not qualifying for hedge accounting and hedge ineffectiveness (see note 4)	18	5
Tax adjusting items and the tax effect of above items	(67)	(32)
Adjusted profit for the year attributable to equity shareholders of the parent company	947	892

	2015 pence	2014 pence
Earnings per share from profit for the year		
Basic		
Continuing operations	79.1p	52.5p
Discontinued operations	36.7p	2.9p
Total	115.8p	55.4p
Diluted		
Continuing operations	78.2p	52.0p
Discontinued operations	36.2p	2.9p
Total	114.4p	54.9p
Adjusted earnings per share from adjusted profit for the year		
Basic	56.0p	57.1p
Diluted	55.3p	56.6p

11 Dividends

	2015 £m	2014 £m
Dividends declared and paid during the year		
2013 Final dividend paid 19.00p per ordinary share	-	298
2014 Interim dividend paid 12.00p per ordinary share	-	187
2014 Final dividend paid 20.00p per ordinary share	340	-
2015 Interim dividend paid 12.30p per ordinary share	209	-
	549	485

The 2015 final dividend proposed is 20.5 pence per ordinary share being £349 million. The dividend was not declared at the balance sheet date and is therefore not recognised as a liability as at 30 June 2015.

Dividends are paid between Group companies out of profits available for distribution subject to inter alia the provisions of the companies' articles of association and the Companies Act 2006. The ESOP has waived its rights to dividends.

Notes to the consolidated financial statements

(continued)

12 Goodwill

	£m
Carrying value	
At 1 July 2013	999
Other	20
At 30 June 2014	1019
Purchase of Sky Deutschland	2 848
Purchase of Sky Italia	752
Disposal of Sky Bet	(149)
Foreign exchange movements	(344)
Other	34
At 30 June 2015	4 160

Goodwill has principally arisen from the Group's purchases of Sky Deutschland, Sky Italia, British Interactive Broadcasting (BiB), Easynet's UK broadband network assets and residential activities, 365 Media's content activities, Amstrad, Living TV, The Cloud and the O2 consumer broadband and fixed-line telephony business.

Goodwill allocated by cash generating unit, is analysed as follows:

	2015 £m	2014 £m
UK & Ireland ¹	904	870
Germany & Austria ²	2 576	-
Italy ³	680	-
Betting and gaming ⁴	-	149
	4 160	1 019

Impairment reviews were performed on these goodwill balances at 30 June 2015, which did not indicate impairment.

Recoverable amounts for each of the cash generating units were calculated on the basis of value in use, using cash flows calculated for the next five years as forecast by management. A long-term growth rate of 3% was applied to all units in order to extrapolate cash flow projections beyond this period (2014: 3%). The cash flows of the UK & Ireland CGU were discounted using a pre-tax discount rate of 8% (2014: 8%); the cash flows of the Germany & Austria CGU were discounted using a pre-tax discount rate of 7% and the cash flows of the Italy CGU were discounted using a pre-tax discount rate of 8%.

In determining the applicable discount rate, management applied judgement in respect of several factors, which included, inter alia, assessing the risk attached to future cash flows and making reference to the capital asset pricing model (the CAPM). Management gave consideration to the selection of appropriate inputs to the CAPM, which included the risk-free rate, the equity risk premium and a measure of systematic risk. Management also considered capital structure and an appropriate cost of debt in arriving at the discount rate.

The key assumptions on which the forecast five-year cash flows of each unit were based include the number of gross customer additions, the rate of churn, the average revenue per user, levels of programming spend, acquisition costs per customer and anticipated changes in the product mix and marketing mix of the broadcast activities. The values assigned to each of these assumptions were determined based on the extrapolation of historical trends within the Group and external information on expected future trends in the entertainment and communications industry in each territory.

1 UK & Ireland

Formerly known as the Broadcast unit, the UK & Ireland unit includes goodwill arising from the purchase of BiB, Easynet's UK broadband network assets and residential activities, 365 Media's content activities, Amstrad, Living TV, The Cloud and the O2 consumer broadband and fixed-line telephony business. The UK & Ireland unit includes intangibles with indefinite lives of £25 million (2014: £25 million).

2 Germany & Austria

The Germany & Austria unit includes goodwill arising from the purchase of Sky Deutschland. For further details, see note 31.

3 Italy

The Italy unit includes goodwill arising from the purchase of Sky Italia. The Italy unit includes intangibles with indefinite lives of £457 million. For further details, see note 31.

4 Betting and gaming

The betting and gaming unit was comprised of goodwill arising on the purchase of the Sports Internet Group (SIG) and 365 Media's betting activities, which were included within Sky Bet. A controlling stake in Sky Bet was sold on 19 March 2015 and the identifiable goodwill attributable to the CGU was included within the Group's profit on disposal. See note 3 for further details.

13 Intangible assets

	Trademarks £m	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
Cost								
At 1 July 2013	18	386	525	197	274	30	57	1,487
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)	-
At 30 June 2014	18	498	558	203	338	71	86	1,772
Additions from business combinations	457	-	105	3,070	28	-	21	3,681
Additions	5	76	75	-	60	111	35	362
Disposals	(4)	(18)	(145)	-	(1)	-	-	(168)
Transfers	-	60	22	-	2	(60)	(24)	-
Foreign exchange movements	-	-	(12)	(294)	(1)	-	(2)	(309)
At 30 June 2015	476	616	603	2,979	426	122	116	5,338
Amortisation								
At 1 July 2013	6	181	357	16	209	-	-	769
Amortisation	1	76	53	32	64	-	-	226
Disposals	-	(18)	(14)	-	(3)	-	-	(35)
Impairments	-	-	1	-	1	-	-	2
At 30 June 2014	7	239	397	48	271	-	-	962
Amortisation	1	84	88	231	60	-	-	464
Disposals	(4)	(18)	(145)	-	(1)	-	-	(168)
Impairments	-	4	1	-	-	-	-	5
Foreign exchange movements	-	-	(1)	(8)	-	-	-	(9)
At 30 June 2015	4	309	340	271	330	-	-	1,254
Carrying amounts								
At 1 July 2013	12	205	168	181	65	30	57	718
At 30 June 2014	11	259	161	155	67	71	86	810
At 30 June 2015	472	307	263	2,708	96	122	116	4,084

The Group's internally generated intangible assets relate principally to software development associated with our customer management systems and set-top boxes. The Group's other intangible assets mainly include copyright licences and connection fees.

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.

	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m
Estimated amortisation charge	598	427	356	301	242

Notes to the consolidated financial statements

(continued)

13 Intangible assets (continued)

Within intangible assets there are certain assets with indefinite useful lives. The carrying value of these assets is £482 million (2014: £25 million).

As part of the acquisition of Sky Italia the Group acquired the rights to use trademarks in certain territories. The rights to use trademarks in certain territories are considered to have indefinite lives because the Group has the intention and ability to consume these rights over an indefinite period. An impairment review of the assets is performed annually as part of the Group's impairment reviews of its CGUs (note 12).

Included within customer contracts and related customer relationships are intangible assets with a net book value of £1,522 million (2014: nil) and a remaining useful life of 15 years relating to the acquired customer base in Germany & Austria and intangible assets with a net book value of £1,057 million (2014: nil) and a remaining useful life of 15 years relating to the acquired customer base in Italy.

14 Property, plant and equipment

	Freehold land and buildings ^{1,2} £m	Leasehold improvements £m	Equipment furniture and fixtures £m	Owned set-top boxes £m	Assets not yet available for use £m	Total ³ £m
Cost						
At 1 July 2013	334	58	1,387	-	53	1,832
Additions	4	-	131	-	119	254
Disposals	-	(1)	(74)	-	-	(75)
Transfers	31	-	34	-	(65)	-
At 30 June 2014	369	57	1,478	-	107	2,011
Additions from business combinations	-	38	73	355	64	530
Additions	3	3	105	16	261	388
Disposals	(5)	-	(78)	(8)	(1)	(92)
Transfers	24	-	39	45	(108)	-
Foreign exchange movements	-	(3)	(8)	(36)	(6)	(53)
At 30 June 2015	391	95	1,609	372	317	2,784
Depreciation						
At 1 July 2013	46	34	711	-	-	791
Depreciation	8	7	193	-	-	208
Disposals	-	(1)	(74)	-	-	(75)
Foreign exchange movements	-	-	(1)	-	-	(1)
At 30 June 2014	54	40	829	-	-	923
Depreciation	10	10	194	84	-	298
Impairments	2	-	4	-	-	6
Disposals	(5)	-	(78)	(3)	-	(86)
Foreign exchange movements	-	-	(1)	(2)	-	(3)
At 30 June 2015	61	50	948	79	-	1,138
Carrying amounts						
At 1 July 2013	288	24	676	-	53	1,041
At 30 June 2014	315	17	649	-	107	1,088
At 30 June 2015	330	45	661	293	317	1,646

1 The amounts shown include assets held under finance leases with a net book value of £31 million (2014: £14 million). The cost of these assets was £48 million (2014: £23 million) and the accumulated depreciation was £17 million (2014: £9 million). Depreciation charged during the year on such assets was £8 million (2014: £2 million).

2 Depreciation was not charged on £88 million of land (2014: £88 million).

3 As part of the disposal of Sky Bet, which has been treated as a discontinued operation (note 3), property, plant and equipment with a carrying value of £9 million was disposed of. In addition, £4 million of depreciation relating to Sky Bet forms part of discontinued operations (2014: £4 million).

15 Investments in joint ventures and associates

A list of the Group's investments in joint ventures and associates including the name, country of incorporation and proportion of ownership interest is given in note 33 to the consolidated financial statements.

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

	2015 £m	2014 £m
Share of net assets		
At 1 July	173	164
Movement in net assets		
- Funding net of repayments	10	6
- Dividends received	(25)	(32)
- Share of profits	28	35
- Acquisition of associate ¹	86	-
- Disposal of associates ²	(149)	-
- Exchange differences on translation of foreign joint ventures and associates	10	-
At 30 June	133	173

¹ During the year the Group sold a controlling stake in Sky Bet and retained an equity stake of 20% in Sky Bet. See note 3 for further details.

² During the year the Group disposed of its interest in NGC Network International LLC and NGC Network Latin America LLC. See note 6 for further details.

The Group's share of any capital commitments and contingent liabilities of associates and joint ventures is shown in note 28.

a) Investments in associates

For the period between the date of completion of the sale of the controlling stake in Sky Bet and 30 June 2015, its revenue was £80 million and profit for the period was £13 million.

For the period between 1 July 2014 and the disposal of NGC Network International LLC and NGC Network Latin America LLC, their revenue was £119 million and profit for the period was £35 million.

b) Investments in joint ventures

Representing the Group's share of each joint venture:

	2015 £m	2014 £m
Non-current assets	12	26
Current assets	77	66
Current liabilities	(36)	(74)
Non-current liabilities	(6)	(1)
Shareholders' equity	(8)	17
Revenue	106	93
Expense	(91)	(77)
Taxation	(3)	(3)
Share of profit from joint ventures	12	13

The aggregate carrying amount of the investments in joint ventures and associates that are not individually material for the Group is £44 million as at 30 June 2015 (£41 million).

16 Available-for-sale investments

	2015 £m	2014 £m
Listed investments	3	518
Unlisted investments	28	15
	31	533

The listed investments include nil (2014: £514 million) relating to the Group's investment in ITV. The Group's listed investments are carried at fair value and the fair value is determined with reference to the equity share price at the balance sheet date. Unlisted investments consist of minority equity stakes in a number of technology and start-up companies.

On 17 July 2014, the Group sold a shareholding of 6.4% in ITV plc, consisting of 259,820,055 ITV shares for an aggregate consideration of £481 million. A profit of £429 million was realised on disposal, being the excess of the consideration above the previously written-down value of the shares for accounting purposes (£52 million).

On 5 November 2014, the Group sold a further shareholding of 0.8% in ITV plc, consisting of 31,864,665 ITV shares for an aggregate consideration of £65 million. A profit of £58 million was realised on disposal, being the excess of the consideration above the previously written-down value of the shares for accounting purposes (£7 million).

Notes to the consolidated financial statements (continued)

17 Deferred tax

i) Recognised deferred tax assets (liabilities)

	Accelerated tax depreciation £m	Intangibles on business combinations £m	Tax losses £m	Short term temporary differences £m	Share-based payments temporary differences £m	Financial instruments temporary differences £m	Total £m
At 1 July 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	-	-	-	-	(3)	1	(2)
- Income	-	-	-	-	(1)	(1)	(2)
- Equity	-	-	-	-	-	-	-
At 30 June 2014	3	1	-	4	28	(6)	30
(Charge) credit to income	(28)	61	21	(3)	16	(2)	65
Credit (charge) to equity	-	-	-	-	15	(20)	(5)
Acquisition of subsidiaries	-	(895)	589	90	-	(1)	(217)
Effect of change in tax rate	-	-	-	-	-	-	-
- Income	3	-	-	-	-	-	3
Foreign exchange movements	2	81	(57)	(8)	-	-	18
At 30 June 2015	(20)	(752)	553	83	59	(29)	(106)

Deferred tax assets have been recognised at 30 June 2015 and 30 June 2014 on the basis that, from management's current forecast of the Group's entities, it is probable that there will be suitable taxable profits against which these assets can be utilised. The fair value of deferred tax assets in excess of deferred tax liabilities arising on acquisition of Sky Deutschland was £115 million on acquisition and has a carrying value of £147 million as at 30 June 2015. The majority of the deferred tax asset relates to tax losses. It is concluded to be probable that there will be suitable future taxable profits against which the deferred tax assets can be utilised taking account of the current forecast of Sky Deutschland's results.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the periods in which they reverse. The UK Government announced a reduction in the main rate of UK corporation tax to 19% with effect from 1 April 2017 and to 18% from 1 April 2020. These changes have not been substantively enacted and have not therefore been included in the figures above. The impact of the future rate reductions will be accounted for to the extent that they are enacted at future balance sheet dates; however it is estimated that this will not have a material impact on the Group. The rate enacted or substantively enacted for the relevant periods of reversal is 20% as at 30 June 2015 (2014: 20%) in the UK, 31.4% in Italy and 27.4% in Germany.

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

	2015 £m	2014 £m
Deferred tax assets	175	52
Deferred tax liabilities	(281)	(22)
	(106)	30

ii) Unrecognised deferred tax assets

	2015 £m	2014 £m
Tax losses arising from trading	219	245
Tax losses arising from capital disposals and provisions against investments	278	283
	497	528

Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profits will be available against which the Group can utilise the losses.

At 30 June 2015, a deferred tax asset of £9 million (2014: £9 million) principally arising from UK trading losses in the Group has not been recognised. These losses can only be offset against taxable profits generated in the entities concerned. There is currently insufficient evidence to support the recognition of a deferred tax asset relating to these losses. The UK trading losses can be carried forward indefinitely.

At 30 June 2015, a deferred tax asset of £210 million (2014: £236 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 £207 million (2014: £233 million) with respect to the Group's German holding company's former investment in KirchPayTV and £3 million (2014: £3 million) with respect to other subsidiaries.

At 30 June 2015, a deferred tax asset of £274 million (2014: £274 million) has not been recognised in respect of capital losses related to the Group's former investment in KirchPayTV on the basis that utilisation of these temporary differences is not probable. At 30 June 2015, the Group also has capital losses with a tax value estimated to be £4 million (2014: £9 million) including impairment of a football club and other investments which have not been recognised as a deferred tax asset on the basis that it is not probable that they will be utilised. The capital losses can be carried forward indefinitely.

18 Inventories

	2015 £m	2014 £m
Television programme rights	811	488
Set-top boxes and related equipment	26	50
Other inventories	10	8
Current inventory	847	546
Non-current programme distribution rights	31	20
Total inventory	878	566

At 30 June 2015 75% (2014 81%) of the television programme rights and 100% (2014 100%) of set-top boxes and related equipment and other inventories is expected to be recognised in the income statement within 12 months

19 Trade and other receivables

	2015 £m	2014 £m
Gross trade receivables	337	235
Less provision for impairment of receivables	(70)	(95)
Net trade receivables	267	140
Amounts receivable from joint ventures and associates	19	7
Amounts receivable from other related parties	26	5
Prepayments	499	279
Accrued income	216	179
VAT	3	2
Other	66	23
Current trade and other receivables	1 096	635
Prepayments	6	4
Amounts receivable from joint ventures and associates	70	-
Other receivables	10	3
Non-current trade and other receivables	86	7
Total trade and other receivables	1 182	642

Included within current trade and other receivables is nil (2014 nil) which is due in more than one year

The ageing of the Groups net trade receivables which are past due but not impaired is as follows

	2015 £m	2014 £m
Up to 30 days past due date	27	27
30 to 60 days past due date	8	3
60 to 120 days past due date	4	2
120+ days past due date	1	-
	40	32

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

	2015 £m	2014 £m
Balance at beginning of year	95	89
Amounts utilised	(65)	(27)
Provided during the year	40	33
Balance at end of year	70	95

Notes to the consolidated financial statements (continued)

20 Trade and other payables

	2015 £m	2014 £m
Trade payables	1 361	802
Amounts owed to joint ventures and associates	16	11
Amounts owed to other related parties	175	124
VAT	155	169
Accruals	1 160	747
Deferred income	401	318
Other	162	115
Current trade and other payables	3 430	2 286
Trade payables	31	23
Amounts owed to other related parties	5	10
Deferred income	6	5
Other	52	18
Non-current trade and other payables	94	56
Total trade and other payables	3 524	2 342

The Directors consider that the carrying amount of trade and other payables approximates their fair values. Trade payables principally comprise amounts outstanding for programming purchases and ongoing costs.

21 Provisions

	At 1 July 2013 £m	Provided during the year £m	Utilised during the year £m	At 1 July 2014 £m	Acquisition of subsidiaries £m	Disposal of subsidiaries £m	Reclassified during the year £m	Provided during the year £m	Utilised during the year £m	Foreign exchange movement £m	At 30 June 2015 £m
Current liabilities											
Restructuring provision ¹	16	14	(8)	22	10	-	-	9	(19)	(1)	21
Customer-related provisions ²	41	-	(39)	2	-	-	-	31	-	-	33
Other provisions ³	37	6	(19)	24	3	-	-	34	(12)	-	49
	94	20	(66)	48	13	-	-	74	(31)	(1)	103
Non-current liabilities											
Other provisions ⁴	14	10	(10)	14	20	(6)	6	25	(6)	(2)	51
Employee benefit obligations ⁵	-	-	-	-	30	-	-	-	(1)	(3)	26
	14	10	(10)	14	50	(6)	6	25	(7)	(5)	77

1 These provisions relate to costs incurred as part of corporate restructuring and efficiency programmes.

2 These provisions include costs of a programme to replace aged customer equipment.

3 Included in current other provisions are amounts provided for legal disputes and warranty liabilities.

4 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.

5 During the year the Group acquired employee benefit obligations as part of its acquisition of Sky Deutschland and Sky Italia on 12 November 2014. These obligations are described further below.

Employee benefit obligations

	Acquired at 12 November 2014 £m	Pension payments £m	Actuarial losses (gains) £m	Foreign exchange movement £m	At 30 June 2015 £m
Sky Deutschland defined benefit obligations	10	-	1	(1)	10
Sky Italia employee benefit obligations	20	(1)	(1)	(2)	16
	30	(1)	-	(3)	26

a) Sky Deutschland

Sky Deutschland operates unfunded final salary defined benefit pension plans that are not covered by plan assets. These plans were closed to future accrual. The total defined benefit obligation at 30 June 2015 was £10 million. The amount of the pension entitlement depends on the salary of the respective employee at the time of retirement. Employee benefit obligations will be funded out of current and future earnings.

The present value of the obligations was measured using the projected unit credit method applying the following principal assumptions:

- Actuarial projections (including assumptions about cost-of-living increases, salary increases, etc.) were made to value the future benefits expected to be paid by the post-employment plan in the event of mortality (both during and after employment), disability and early retirement. Seniority and rates of employee turnover as well as salary and benefit levels at the measurement date were also taken into account in projecting future benefits.
- The average present value at the measurement date has been calculated on the basis of the assumed annual discount rate and the probability of services being rendered.
- The following specific assumptions have been used:
 - Annual discount rate of 2.45%
 - Annual growth rate of 2.00%
 - Annual salary growth rate of 2.50% and
 - Annual fluctuation rate employees of 7.00%

Since there are no plan assets as defined by IAS 19 (revised 2011) and all actuarial gains and losses are recognised when incurred, the present value of the defined benefit obligation of the pension obligations and the obligations similar to pensions is equivalent to the provision recognised on the balance sheet.

Reasonably possible changes to these assumptions would not have a material impact on the provision.

The weighted average maturity of the defined benefit obligation is 21 years as of the balance sheet date.

Expected pension payments in the year to 30 June 2016 are less than £1 million.

b) Sky Italia

Sky Italia's employee benefit obligations relate to a provision for employee retirement determined using actuarial techniques (as discussed further below) and regulated by Article 2120 of the Italian Civil Code. These plans were closed to future accrual. The total employee benefit obligation at 30 June 2015 was £16 million. The benefit is paid upon retirement as a lump sum, the amount of which corresponds to the total of the provisions accrued during the employees' service period based on payroll costs as revalued until retirement. Employee benefit obligations will be funded out of current and future earnings.

The present value of the obligations was measured using the projected unit credit method applying the following principal assumptions:

- Actuarial projections (including assumptions about cost-of-living increases, salary increases, etc.) were made to value the future benefits expected to be paid by the post-employment plan in the event of mortality (both during and after employment), disability and early retirement. Seniority and rates of employee turnover as well as salary and benefit levels at the measurement date were also taken into account in projecting future benefits.
- The average present value at the measurement date has been calculated on the basis of the assumed annual discount rate and the probability of services being rendered.
- The following specific assumptions have been used:
 - Annual discount rate of 0.12%
 - Annual inflation rate of 0.10%
 - Annual revaluation rate of 1.58%
 - Annual fluctuation rate employees of 5.39% and
 - Annual mortality rate of 0.10%

Since there are no plan assets as defined by IAS 19 (revised 2011) and all actuarial gains and losses are recognised when incurred, the present value of the defined benefit obligation of the pension obligations and the obligations similar to pensions is equivalent to the provision recognised on the balance sheet.

Reasonably possible changes to these assumptions would not have a material impact on the provision.

The weighted average maturity of the defined benefit obligation is 17 years as of the balance sheet date.

Expected pension payments in the year to 30 June 2016 are less than £1 million.

Notes to the consolidated financial statements

(continued)

22 Borrowings

	2015 £m	2014 £m
Current borrowings		
Loan Notes	4	-
US\$750 million of 5.625% Guaranteed Notes repayable in October 2015	468	-
Obligations under finance leases ⁽¹⁾	- 22	- 11
	494	11
Non-current borrowings		
US\$750 million of 5.625% Guaranteed Notes repayable in October 2015	-	434
£400 million of 5.750% Guaranteed Notes repayable in October 2017 ⁽²⁾	399	400
US\$750 million of 6.100% Guaranteed Notes repayable in February 2018 ⁽³⁾	474	442
US\$582.8 million of 9.500% Guaranteed Notes repayable in November 2018 ⁽¹⁾	372	353
US\$750 million of 2.625% Guaranteed Notes repayable in September 2019 ⁽⁴⁾	477	-
€600 million of Floating Rate Notes repayable in April 2020 ⁽⁵⁾	425	-
£450 million of 2.875% Guaranteed Notes repayable in November 2020 ⁽⁶⁾	445	-
€1,500 million of 1.500% Guaranteed Notes repayable in September 2021 ⁽¹⁾	1,058	-
US\$800 million of 3.125% Guaranteed Notes repayable in November 2022 ⁽²⁾	504	466
€850 million of 1.875% Guaranteed Notes repayable in November 2023 ⁽³⁾	602	-
US\$1,250 million of 3.750% Guaranteed Notes repayable in September 2024 ⁽⁴⁾	787	-
€1,000 million of 2.500% Guaranteed Notes repayable in September 2026 ⁽⁵⁾	705	-
£300 million of 6.000% Guaranteed Notes repayable in May 2027 ⁽¹⁾	296	296
£300 million of 4.000% Guaranteed Notes repayable in November 2029 ⁽²⁾	297	-
£400 million of 2.750% Guaranteed Notes repayable in November 2029 ⁽³⁾	281	-
US\$350 million of 6.500% Guaranteed Notes repayable in October 2035 ⁽¹⁾	218	201
Loan Notes	2	1
Obligations under finance leases ⁽⁴⁾	76	65
	7,418	2,658

(1) Guaranteed Notes

At 30 June 2015, 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%
£450 million of 2.875% Guaranteed Notes repayable in November 2020	450	-	450	-	3m LIBOR +1.230%
	1,226	550	676		

	Hedged Value* £m	Interest Rate Hedging		Hedged Interest Rates	
		Fixed £m	Floating £m	Fixed	Floating
US\$750 million of 2.625% Guaranteed Notes repayable in September 2019	581	-	581	-	3m EURIBOR +0.656%
€600 million of Floating Rate Notes repayable in April 2020	600	-	600	-	3m EURIBOR +0.750%
€1,500 million of 1.500% Guaranteed Notes repayable in September 2021	1,500	1,500	-	1.500%	-
US\$800 million of 3.125% Guaranteed Notes repayable in November 2022	689	689	-	2.118%	-
€850 million of 1.875% Guaranteed Notes repayable in November 2023	850	850	-	1.875%	-
US\$1,250 million of 3.750% Guaranteed Notes repayable in September 2024	969	969	-	2.187%	-
€1,000 million of 2.500% Guaranteed Notes repayable in September 2026	1,000	1,000	-	2.500%	-
£300 million of 6.000% Guaranteed Notes repayable in May 2027	411	411	-	5.006%	-
£300 million of 4.000% Guaranteed Notes repayable in November 2029	399	399	-	3.122%	-
£400 million of 2.750% Guaranteed Notes repayable in November 2029	400	400	-	2.750%	-
	7,399	6,218	1,181		

At 30 June 2015 the Group had in issue the following Guaranteed Notes which were issued by Sky Group Finance 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% -
	1,028	721	307	

At 30 June 2014 the Group had in issue the following Guaranteed Notes which were issued by the Company

	Interest Rate Hedging		Hedged Interest Rates	
	Hedged Value* £m	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% -
£300 million of 6.000% Guaranteed Notes repayable in May 2027	300	300	-	6.000% -
	1,579	1,353	226	

At 30 June 2014 the Group had in issue the following Guaranteed Notes which were issued by Sky Group Finance 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% -
	1,028	721	307	

* Hedged value is the final redemption value including any hedging

The Group has a Global Medium-Term Note Programme (the Programme) which provides the Group with a standardised documentation platform for senior debt issuance of up to £5 billion in the major global bond markets. All sterling and euro Guaranteed and Floating Rate Notes issued during the year were issued under a £10 billion acquisition related programme. The £300 million of 6.000% Guaranteed Notes maturing in May 2027 have been issued under the Group's historical EMTN Programme.

(ii) Finance leases

The minimum lease payments under finance leases fall due as follows

	2015 £m	2014 £m
Within one year	22	11
Between one and five years	53	39
After five years	128	136
	203	186
Future finance charges on finance lease liabilities	(105)	(110)
Present value of finance lease liabilities	98	76

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 (2014: £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 (2014: £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 (2014: £3 million) were made against the lease. A proportion of these payments have been allocated against the capital amount outstanding. The lease bears interest at a rate of 3.6% and expires in June 2016.
- finance arrangements in connection with set top boxes. During the year repayments of £5 million (2014: nil) were made against the lease. A proportion of these payments have been allocated against the capital amount outstanding. The lease bears interest at a rate of 7% and expires in March 2017.

Notes to the consolidated financial statements

(continued)

22 Borrowings (continued)

(iii) Revolving Credit Facility

The Group has a £1 billion RCF with a maturity date of 30 November 2020 syndicated across 15 counterparty banks each with a minimum credit rating of Baa2 or equivalent from Standard & Poor's. At 30 June 2015 the RCF was undrawn (2014: undrawn).

The Group is subject to two financial covenants under the RCF: a maximum leverage ratio and a minimum interest cover ratio which are tested at the end of each six-monthly period. The key financial covenants are the ratio of Net Debt to EBITDA (as defined in the loan agreements) and EBITDA to Net Interest Payable (as defined in the loan agreements). Net Debt to EBITDA must be no more than 4.00:1 and EBITDA to Net Interest Payable must be at least 3.50:1. The Group was in compliance with these covenants for all periods presented.

(iv) Guarantees

The following guarantees are in place relating to the Group's borrowings: (a) Sky UK Limited, Sky Subscribers Services Limited, Sky Group Finance plc and Sky Telecommunications Services Limited have given joint and several guarantees in relation to the Company's £1 billion RCF and the outstanding Guaranteed and Floating Rate Notes issued by the Company; and (b) the Company, Sky UK Limited, Sky Subscribers Services Limited and Sky Telecommunications Services Limited have given joint and several guarantees in relation to the outstanding Guaranteed Notes issued by Sky Group Finance plc.

The Company has provided a back-to-back guarantee in favour of 21st Century Fox Inc. of up to half the annual payment obligations of Sky Deutschland Fernsehen GmbH & Co. KG under the 2013-2017 Bundesliga agreement. It has also provided back-to-back guarantees in favour of 21st Century Fox Inc. in relation to UEFA Champions League and other programming obligations of Sky Italia Srl.

23 Derivatives and other financial instruments

Set out below are the derivative financial instruments entered into by the Group to manage its interest rate and foreign exchange risks.

	2015				2014			
	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	62	1,275	-	-	77	767	-	-
Cross-currency swaps	18	466	-	-	-	-	-	-
Cash flow hedges								
Cross-currency swaps	137	1,435	(12)	503	72	661	(36)	503
Forward foreign exchange contracts	148	2,191	(36)	1,065	33	764	(76)	1,464
Net investment hedges								
Cross-currency swaps	150	1,943	(3)	400	-	-	-	-
Derivatives not in a formal hedge relationship								
Cross-currency swaps	51	353	(25)	390	21	353	(59)	390
Forward foreign exchange contracts	17	244	(7)	460	2	217	(4)	262
Interest rate swaps	-	-	-	260	5	260	-	-
Total	583	7,907	(83)	3,078	210	3,022	(175)	2,619

The maturity of the derivative financial instruments is as follows:

	2015		2014	
	Asset £m	Liability £m	Asset £m	Liability £m
In one year or less	130	(22)	15	(39)
Between one and two years	46	(7)	43	(25)
Between two and five years	254	(40)	132	(75)
In more than five years	153	(14)	20	(36)
Total	583	(83)	210	(175)

The fair value of the Group's debt-related derivative portfolio at 30 June 2015 was a £378 million net asset (2014: net asset of £80 million) with notional principal amounts totalling £7,025 million (2014: £2,934 million). This comprised: net assets of £125 million designated as cash flow hedges (2014: net assets of £36 million); net assets of £80 million designated as fair value hedges (2014: net assets of £77 million); net assets of £147 million designated as net investment hedges (2014: nil); and net assets of £26 million not designated in a formal hedge relationship (2014: net assets of £33 million).

At 30 June 2015, the carrying value of financial assets that were, upon initial recognition, designated as financial assets at fair value through profit or loss was nil (2014: nil).

In the prior year, the Group 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 was not designated for hedge accounting purposes with movements in the fair value of the collar being taken to the income statement; this collar arrangement was closed out in the current year.

Hedge accounting classification and impact

The Group designated certain interest rate swaps as fair value hedges of interest rate risk and cross-currency swaps as fair value hedges of interest rate risk and foreign exchange risk. This represents 25% (2014: 26%) of the total debt related derivative portfolio. Movements in the fair value of the hedged items are taken to the income statement and are offset by movements in the fair value of the hedging instruments to the extent that hedge accounting is achieved.

The Group designated certain fixed rate cross-currency swaps as cash flow hedges. This represents 28% (2014: 40%) of the total debt related derivative portfolio. As such, the effective portion of the gain or loss on these contracts is reported as a separate component of the hedging reserve and is then reclassified to the income statement in the same periods that the forecast transactions affect the income statement. Cash flows on the swaps occur semi-annually up to and inclusive of the relevant bond maturity disclosed in note 22. During the current year, gains of £137 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 (2014: losses of £140 million).

The Group designated certain cross-currency swaps as net investment hedges. This represents 33% (2014: nil) of the total debt related derivative portfolio. Exchange differences arising from the translation of the net investment in foreign operations are recognised directly in equity. Gains and losses on those hedging instruments (which include bonds and cross-currency swaps and are separately designated as net investment hedges) designated as hedges of the net investments in foreign operations are recognised in equity to the extent that the hedging relationship is effective. These amounts are included in exchange differences on translation of foreign operations as stated in the statement of comprehensive income. Gains and losses relating to hedge ineffectiveness are recognised immediately in the income statement for the period. Gains and losses accumulated in the foreign currency translation reserve are included in the income statement when the foreign operation is disposed of.

The Group designates certain forward foreign exchange contracts 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, losses of £1 million were removed from the hedging reserve and credited to operating expense in the income statement (2014: gains of £7 million). Gains of £26 million were removed from the hedging reserve and debited to revenue in the income statement (2014: losses of £2 million).

Hedge effectiveness testing is performed quarterly using the dollar-offset approach. The actual movement in the hedging items is compared with the movement in the valuation of the hypothetically perfect hedge of the underlying risk at inception, and any ineffectiveness is recognised directly in the income statement. For fair value hedges, ineffectiveness of £1 million was recognised in the income statement during the current year (2014: £1 million). For cash flow hedges, ineffectiveness of less than £1 million was recognised in the income statement during the current year (2014: nil). For net investment hedges, ineffectiveness of nil was recognised in the income statement during the current year (2014: nil).

A hedge relationship is deemed to be effective if the ratio of changes in valuation of the underlying hedged item and the hedging instrument is within the range of 80% to 125%. Any relationship which has a ratio outside this range is deemed to be ineffective, at which point hedge accounting is suspended. During the year ended 30 June 2015, there were no instances in which the hedge relationship was not highly effective (2014: 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 2015								
Quoted bond debt	-	-	-	-	-	(7808)	(7808)	(8 083)
Derivative financial instruments	-	-	36	464	-	-	500	500
Trade and other payables	-	-	-	-	-	(2 894)	(2 894)	(2 894)
Provisions	-	-	-	-	-	(129)	(129)	(129)
Obligations under finance leases and other borrowings	-	-	-	-	-	(104)	(104)	(104)
Available-for-sale investments	-	31	-	-	-	-	31	31
Trade and other receivables	-	-	-	-	807	-	807	807
Short-term deposits	1100	-	-	-	-	-	1100	1100
Cash and cash equivalents	50	-	-	-	1 328	-	1 378	1 378
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

Notes to the consolidated financial statements

(continued)

23 Derivatives and other financial instruments (continued)

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 2015 and 30 June 2014. The volatile nature of the markets means that values at any subsequent date could be significantly different from the values reported above.

Cash and cash equivalents classified as held to maturity investments comprise money market deposits which have maturity dates of less than three months from inception. Money market deposits, enhanced return investments and tri-party repurchase agreements which have maturity greater than three months from inception are classified as short-term deposits.

Cash and cash equivalents classified as loans and receivables mainly comprise investments in AAAm rated money market funds which can be withdrawn without notice.

(b) Fair value hierarchy

The following table categorises the Group's financial instruments which are held at fair value into one of three levels to reflect the degree to which observable inputs are used in determining their fair values.

	Fair value £m	Level 1 £m	Level 2 £m	Level 3 £m
At 30 June 2015				
Financial assets				
Available-for-sale financial instruments				
Other investments	31	3	-	28
Financial assets at fair value through profit or loss				
Interest rate swaps	62	-	62	-
Cross-currency swaps	356	-	356	-
Forward foreign exchange contracts	165	-	165	-
Total	614	3	583	28
Financial liabilities				
Financial liabilities at fair value through profit or loss				
Cross-currency swaps	(40)	-	(40)	-
Forward foreign exchange contracts	(43)	-	(43)	-
Total	(83)	-	(83)	-
At 30 June 2014				
Financial assets				
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	-
Total	743	518	210	15
Financial liabilities				
Financial liabilities at fair value through profit or loss				
Cross-currency swaps	(95)	-	(95)	-
Forward foreign exchange contracts	(80)	-	(80)	-
Total	(175)	-	(175)	-

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

24 Financial risk management

Group Treasury activity

The Group's Treasury function is responsible for raising finance for the Group's operations together with associated liquidity management and management of foreign exchange interest rate and credit risks. Treasury operations are conducted within a framework of policies and guidelines authorised and reviewed annually by both the Audit Committee and the Board, which receive regular updates of Treasury activity. Derivative instruments are transacted for risk management purposes only. It is the Group's policy that all hedging is to cover known risks and no speculative trading is undertaken. Regular and frequent reporting to management is required for all transactions and exposures, and the internal control environment is subject to periodic review by the Group's internal audit team.

The Group's principal market risks are exposures to changes in interest rates and foreign exchange rates which arise both from the Group's sources of finance and its operations. Following evaluation of those market risks, the Group selectively enters into derivative financial instruments to manage these exposures. The principal instruments currently used are interest rate swaps to hedge interest rate risks and cross-currency swaps and forward foreign exchange contracts to hedge transactional and translational currency exposures.

Interest rate risk

The Group has financial exposures to UK, euro and US interest rates arising primarily from the Group's long-term bonds and other borrowings. The Group's hedging policy requires that between 50% and 85% of borrowings are held at fixed rates. This is achieved by issuing fixed rate bonds or floating rate notes and then using interest rate swaps to adjust the balance between fixed and floating rate debt. The Group's bank debt is at floating rates and 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 2015, 76% of borrowings were held at fixed rates after hedging (2014: 80%).

The Group uses derivatives to convert all of its US dollar-denominated debt and associated interest rate obligations to pounds sterling or euros (see section on foreign exchange risk for further detail). At 30 June 2015, the Group had no net US dollar denominated interest rate exposure on its borrowings.

The Group designates certain interest rate swaps as hedges of interest rate risk and certain cross-currency swaps as fair value hedges of both interest rate risk and currency risk. Movements in the fair value of the hedged exposure are taken to the income statement and are offset by movements in the fair value of the hedging instruments, which are also taken to the income statement. Any hedge ineffectiveness is recognised directly in the income statement. In the year ended 30 June 2015, this amounted to £1 million (2014: £1 million).

At 30 June 2015 and 30 June 2014, the Group's annual finance costs would increase or decrease by less than £1 million for a one-notch downgrade or upgrade in rating assuming RCF remains undrawn.

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 2015 and if all other variables were held constant:

- The Group's profit for the year ended 30 June 2015 would increase or decrease by less than £1 million (2014: profit for the year would increase or decrease by £8 million). The year-on-year movement is driven by an increase in the level of floating debt held.
- Other equity reserves would decrease or increase by £12 million (2014: decrease or increase by £6 million) arising from movements in cash flow hedges.

A one hundred basis point rise or fall in interest rates represents a large but realistic movement which can easily be multiplied to give sensitivities at different interest rates.

The sensitivity analyses provided are hypothetical only and should be used with caution as the impacts provided are not necessarily indicative of the actual impacts that would be experienced because the Group's actual exposure to market rates changes as the Group's portfolio of debt, cash and foreign currency contracts changes. In addition, the effect of a change in a particular market variable on fair values or cash flows is calculated without considering interrelationships between the various market rates or mitigating actions that would be taken by the Group. The changes in valuations are estimates of the impact of changes in market variables and are not a prediction of future events or anticipated gains or losses.

Foreign exchange risk

A combination of cross-currency and interest rate swap arrangements is used to convert the Group's debt and associated interest rate obligations to pounds sterling or euros at fixed exchange rates. At 30 June 2015, the split of the Group's aggregate borrowings into their core currencies was US dollar 42%, euros 39% and pounds sterling 19% (2014: US dollar 71% and pounds sterling 29%). At 30 June 2015, 30% of the Group's long-term borrowings after the impact of derivatives are denominated in pounds sterling and 70% in euros.

The Group is exposed to currency translation on the consolidation of its foreign operations. It uses certain borrowings and derivative instruments to hedge its net investments in these subsidiaries.

The majority of the Group's revenues and operating expenses are denominated in pounds sterling. In the current year, approximately 24% of operating expenses (£2,206 million) was denominated in euros (2014: approximately 4% (£272 million)) and approximately 8% of operating expenses (£758 million) was denominated in US dollars (2014: approximately 10% (£629 million)). In the current year, approximately 25% of revenues (£2,572 million) was denominated in euros (2014: 5% (£393 million)).

Following the acquisitions of Sky Deutschland and Sky Italia, the Group Treasury function hedges the foreign currency exposure of its foreign subsidiaries into its local reporting currency. In all territories, the US dollar expense relates mainly to the Group's programming contracts with US suppliers together with US dollar-denominated set-top box costs. In the UK, the euro revenues primarily relate to subscribers located in Ireland. The UK's exposure to euro-denominated revenue is offset to a certain extent by euro-denominated costs related mainly to certain transponder costs and euro financing costs on its borrowings, the net position being a euro surplus (2014: surplus).

The Group hedges currency exposures on US dollar denominated highly probable cash flows by using forward foreign exchange contracts purchased up to five years ahead of the cash flow and currently no longer hedges transactional euro exposures arising in the UK.

Notes to the consolidated financial statements

(continued)

24 Financial risk management (continued)

It is the Group's policy that all US dollar foreign currency exposures are substantially hedged in advance of the year in which they occur

At 30 June 2015 the Group had purchased forward foreign exchange contracts representing

- Approximately 92% of US dollar-denominated costs falling due within one year (2014: 95%) and on a declining basis across five-year planning horizon are hedged via
 - Outstanding commitments to purchase in aggregate US\$2.611 million (2014: US\$2.358 million) at an average rate of US\$1.58 to £1.00 (2014: US\$1.60 to £1.00)
 - Outstanding commitments to purchase in aggregate US\$1.891 million (2014: US\$Nil) at an average rate of US\$1.18 to £1.00 (2014: Nil)
- in respect of its legacy euro hedging programme and to hedge current balance sheet exposures
 - Outstanding commitments to sell in aggregate €976 million (2014: €1078 million) at an average rate of £1.22 to £1.00 (2014: £1.18 to £1.00)
 - Outstanding commitments to purchase in aggregate €525 million (2014: £111 million) at an average rate of £1.37 to £1.00 (2014: £1.18 to £1.00)

No forward foreign exchange contracts fall due beyond five years (2014: Two)

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 (2014: less than £1 million)

A combination of US dollar denominated interest rate and US dollar/pound sterling cross-currency swaps is used to convert fixed dollar denominated debt to floating sterling denominated debt. The interest rate swaps are designated as fair value hedges. The associated cross-currency swaps are not designated as hedging instruments for hedge accounting purposes and as such, movements in their value are recorded directly in the income statement.

Foreign exchange sensitivity

The following analysis details the Group's sensitivity to movements in pounds sterling and euros against those currencies in which it has significant transactions. The sensitivity analysis includes foreign currency denominated assets and liabilities at the balance sheet date and outstanding foreign currency denominated financial instruments and adjusts their translation at the period end for a 25% change in foreign currency rates.

A 25% strengthening in pounds sterling against the US dollar would have the effect of reducing profit by £12 million (2014: reducing profit by £15 million) of which losses of £13 million relate to non-cash movements in the valuation of derivatives (2014: losses of £16 million). The same strengthening would have an adverse impact on other equity of £359 million (2014: adverse impact of £288 million).

A 25% weakening in pounds sterling against the US dollar would have the effect of increasing profit by £19 million (2014: increasing profit by £25 million) of which gains of £21 million relate to non-cash movements in

the valuation of derivatives (2014: gains of £27 million). The same weakening would have a beneficial impact on other equity of £598 million (2014: beneficial impact of £479 million).

A 25% strengthening in pounds sterling against the euro would have the effect of increasing profit by £69 million (2014: increasing profit by £2 million) of which gains of £53 million relate to non-cash movements in the valuation of derivatives (2014: Nil). The same strengthening would have a beneficial impact on other equity of £102 million (2014: beneficial impact of £155 million).

A 25% weakening in pounds sterling against the euro would have the effect of decreasing profit by £115 million (2014: decreasing profit by £3 million) of which losses of £88 million relate to non-cash movements in the valuation of derivatives (2014: Nil). The same weakening would have an adverse impact on other equity of £170 million (2014: adverse impact of £259 million).

A 25% strengthening in euro against the US dollar would have the effect of increasing profit by €35 million (2014: Nil). None of this amount relates to non-cash movements in the valuation of derivatives. The same strengthening would have an adverse impact on other equity of €312 million (2014: Nil).

A 25% weakening in euro against the US dollar would have the effect of decreasing profit by €58 million (2014: Nil). 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 €520 million (2014: Nil).

The sensitivity analyses provided are hypothetical only and should be used with caution as the impacts provided are not necessarily indicative of the actual impacts that would be experienced because the Group's actual exposure to market rates is constantly changing as the Group's portfolio of debt, cash and foreign currency contracts changes. In addition, the effect of a change in a particular market variable on fair values or cash flows is calculated without considering interrelationships between the various market rates or mitigating actions that would be taken by the Group. The changes in valuations are estimates of the impact of changes in market variables and are not a prediction of future events or anticipated gains or losses.

Hedge accounting

The interest rate and foreign exchange rate risk sections above outline the Group's policies regarding use of derivative products. Further detail on valuations and the impact of hedge accounting during the year are provided in note 23.

Credit risk

The Group is exposed to counterparty default risk 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 6% 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 Baa2 or equivalent from Standard & Poor's. To mitigate remaining risks, counterparty credit and sovereign ratings are closely monitored and no more than 10% of cash deposits are held with a single bank counterparty (with the exception of overnight deposits which are invested in a spread of AAAA rated liquidity funds).

The amount recognised in the income statement in respect of credit risk for derivatives deemed held for trading is £1 million (2014: Nil).

Credit risk in our residential customer base is mitigated by billing and collecting in advance for digital television subscriptions for the majority of our residential customer base. The Group's maximum exposure to credit risk on trade receivables is the carrying amounts as disclosed in note 19.

Liquidity risk

Our principal source of liquidity is cash generated from operations combined with access to a £1 billion RCF which expires in November 2020. At 30 June 2015 this facility was undrawn (30 June 2014: 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 2015 70% (2014: 29%) of the Group's total available funding (including available undrawn amounts on our RCF) was due to mature in more than five years.

Full details of the Group's borrowings and undrawn facilities are shown in note 22 other than trade and other payables shown in note 20 and provisions shown in note 21.

The following table analyses the Group's non-derivative financial liabilities, net settled derivative financial instruments and gross settled financial instruments into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows and may therefore not reconcile to the amounts disclosed on the balance sheet for borrowings, derivative financial instruments, provisions and trade and other payables.

	Less than 12 months £m	Between one and two years £m	Between two and five years £m	More than five years £m
At 30 June 2015				
Non derivative financial liabilities				
Bonds – USD	626	137	1 615	1 920
Bonds – EUR	57	55	595	2 948
Bonds – GBP	66	66	552	1 309
Obligations under finance leases and other borrowings	26	26	29	128
Trade and other payables	2 676	123	15	19
Provisions	81	15	3	16
Net settled derivatives				
Financial assets	(31)	(24)	(40)	(9)
Gross settled derivatives				
Outflow	2 292	1 046	3 359	3 851
Inflow	(2 433)	(1 130)	(3 665)	(4 216)
At 30 June 2014				
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)

Capital Risk Management

The Group's objectives when managing capital are to endeavour to ensure that the Group has the ability to access capital markets when necessary and to optimise liquidity and operating flexibility through the arrangement of new debt while seeking to minimise the cost of capital. The Group monitors its liquidity requirements regularly and is satisfied that it has access to sufficient liquidity and operating flexibility to meet its capital requirements.

The Group manages its short and long-term capital structure by seeking to maintain leverage ratios consistent with a long-term investment grade credit rating (BBB or better from Standard & Poor's and Baa3 or better from Moody's). The Group's current ratings are BBB (Standard & Poor's) and Baa2 (Moody's) both with stable outlook. The leverage ratios assessed by these rating agencies are those of Net Debt, EBITDA and Gross Debt. EBITDA, Net Debt is defined as total borrowings including the cash flows arising under operating leases and transponder prepayments less cash and cash equivalents, excluding derivatives. Gross Debt does not reduce total borrowings by the inclusion of cash and cash equivalents.

The Group is also required to maintain a Net Debt/EBITDA ratio below 4.00:1 and an EBITDA to Net Interest Payable ratio at above 3.50:1 under the terms of its RCF. The RCF definition of Net Debt does not require the inclusion of future operating lease or transponder cash flows.

At 30 June 2015 the Net Debt/EBITDA ratio as defined by the terms of the RCF was 2.5:1 (2014: 0.7:1) and the EBITDA to Net Interest Payable ratio was 10.6:1 (2014: 13.3:1).

Notes to the consolidated financial statements (continued)

25 Share capital

	2015 £m	2014 £m
Allotted called-up and fully paid shares of 50p 1 719 017 230 (2014 1 562 885 017)	860	781
	2015 Number of ordinary shares	2014 Number of ordinary shares
Allotted and fully paid during the year		
Beginning of year	1 562 885 017	1 593 905 182
Issue of own equity shares	156 132 213	-
Shares repurchased and subsequently cancelled	-	(31 020 165)
End of year	1 719 017 230	1 562 885 017

The Company has one class of ordinary shares which carry equal voting rights and no contractual right to receive payment. On 25 July 2014 the Company announced the placing of 156 132 213 new ordinary shares representing approximately 9.99% of existing issued share capital for total gross proceeds of £1 358 million. £12 million of transaction costs were accounted for as a deduction from equity.

Share option and contingent share award schemes

The Company operates various equity-settled share option schemes (the Schemes) for certain employees.

The number of newly issued shares which may be allocated under the Schemes on any day shall not, when aggregated with the number of newly issued shares which have been allocated in the previous 10 years under the Schemes and any other employee share scheme adopted by the Company, exceed such number as represents 5% of the ordinary share capital of the Company in issue immediately prior to that day. In determining this limit no account shall be taken of any newly issued shares where the right to acquire the newly issued shares was released, lapsed, cancelled or otherwise became incapable of exercise. Options and awards which will be satisfied by ESOP shares do not fall within these headroom limits.

The share awards outstanding can be summarised as follows:

	2015 Number of ordinary shares	2014 Number of ordinary shares
Executive Share Option Scheme options ⁽ⁱ⁾	-	147 020
Sharesave Scheme options ⁽ⁱⁱ⁾	8 367 072	7 976 924
Management LTIP awards ⁽ⁱⁱⁱ⁾	27 108 781	16 056 961
LTIP awards ^(iv)	8 895 963	5 575 000
Management Co-Investment LTIP awards ^(v)	2 021 348	2 065 719
Co-Investment LTIP awards ^(vi)	1 768 738	2 235 172
	48 161 902	34 056 796

(i) Executive Share Option Scheme options

All Executive Share Option Scheme options outstanding at 30 June 2014 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 was 10 years.

(ii) Sharesave Scheme options

All Sharesave Scheme options outstanding at 30 June 2015 and 30 June 2014 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 in the UK and Ireland. 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 2015 and 30 June 2014 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 2015 and 30 June 2014 vest only if performance conditions are met. Awards granted under the LTIP must be exercised within five years of the relevant award vesting date.

The Company operates the LTIP for Executive Directors and Senior Executives. Awards under the scheme are granted in the form of a nil-priced option. The awards vest in full or in part dependent on the satisfaction of specified performance targets. For awards made in 2008 and 2009 (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 2015 and 30 June 2014 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 2015 and 30 June 2014 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, 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 £	Number	Weighted average exercise price £
Outstanding at 1 July 2013	931 247	5.79	715 954	5.34	37 253 124	0.00	45 344 325	0.96
Granted during the year	-	-	3 022 211	6.82	10 068 805	0.00	13 091 016	1.57
Exercised during the year	(771 806)	5.95	(1 217 391)	4.96	(20 763 738)	0.00	(22 752 935)	0.47
Forfeited during the year	(10 516)	5.03	(961 166)	5.89	(625 339)	0.00	(1 597 021)	3.58
Expired during the year	(1 905)	6.62	(26 684)	4.47	-	-	(28 589)	4.61
Outstanding at 30 June 2014	147 020	5.03	7 976 924	5.90	25 932 852	0.00	34 056 796	1.40
Granted during the year	-	-	3 338 681	7.08	16 874 287	0.00	20 212 968	1.17
Exercised during the year	(144 888)	5.03	(1 796 333)	4.99	(1 887 798)	0.00	(3 829 019)	2.53
Forfeited during the year	-	-	(1 131 874)	6.37	(1 124 511)	0.00	(2 256 385)	3.19
Expired during the year	(2 132)	5.03	(20 326)	5.36	-	-	(22 458)	5.33
Outstanding at 30 June 2015	-	-	8 367 072	6.50	39 794 830	0.00	48 161 902	1.13

The weighted average market price of the Group's shares at the date of exercise for share options exercised during the year was £9.09 (2014: £8.42). For those exercised under the Executive Scheme it was £8.90 (2014: £8.48) for those exercised under the Sharesave Scheme it was £9.37 (2014: £8.82) and for those exercised under the Senior Management Schemes it was £8.84 (2014: £8.40).

The middle market closing price of the Company's shares at 26 June 2015 was £10.65 (27 June 2014: £8.93).

Notes to the consolidated financial statements

(continued)

25 Share capital (continued)

The following table summarises information about share awards outstanding at 30 June 2015

Range of exercise prices	Sharesave Scheme		Senior management Schemes		Total	
	Number	Weighted average remaining contractual life Years	Number	Weighted average remaining contractual life Years	Number	Weighted average remaining contractual life Years
£0.00 - £1.00	-	-	39 794 830	5.9	39 794 830	5.9
£4.00 - £5.00	7827	0.1	-	-	7827	0.1
£5.00 - £6.00	1 586 366	1.7	-	-	1 586 366	1.7
£6.00 - £7.00	3 643 835	2.1	-	-	3 643 835	2.1
£7.00 - £8.00	3 129 044	3.4	-	-	3 129 044	3.4
	8 367 072	2.5	39 794 830	5.9	48 161 902	5.3

The following table summarises information about share awards outstanding at 30 June 2014

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	-	-	-	-	25 932 852	6.0	25 932 852	6.0
£3.00 - £4.00	-	-	28 381	0.1	-	-	28 381	0.1
£4.00 - £5.00	-	-	339 644	1.1	-	-	339 644	1.1
£5.00 - £6.00	147 020	0.1	3 239 353	2.0	-	-	3 386 373	1.9
£6.00 - £7.00	-	-	4 369 546	3.1	-	-	4 369 546	3.1
	147 020	0.1	7 976 924	2.5	25 932 852	6.0	34 056 796	5.2

The range of exercise prices of the awards outstanding at 30 June 2015 was between nil and £7.08 (2014: nil and £6.82). For those outstanding under the Sharesave Scheme it was between £4.33 and £7.08 (2014: £3.72 and £6.82) and for all awards outstanding under the Senior Management Schemes the exercise price was nil (2014: nil).

The following table summarises additional information about the awards exercisable at 30 June 2015 and 30 June 2014

	2015			2014		
	Options exercisable at 30 June	Average remaining contractual life of exercisable options	Weighted average exercise price £	Options exercisable at 30 June	Average remaining contractual life of exercisable options	Weighted average exercise price £
Executive Scheme	-	-	-	147 020	0.1	5.03
Sharesave Scheme	41 293	0.1	4.94	78 668	0.1	4.95
Senior Management Schemes	273 118	2.7	0.00	872 229	3.5	0.00
	314 411	2.3	0.65	1 097 917	2.8	1.03

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 £6.03 (2014: £5.53). 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 £1.46 (2014: £1.89). This was calculated using the Black-Scholes share option pricing model.

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

	2015	2014
Share price	£8.82	£8.70
Exercise price	£7.08	£6.82
Expected volatility	20%	22%
Expected life	4.0 years	4.0 years
Expected dividends	3.5%	3.3%
Risk-free interest rate	1.5%	1.2%

(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 £6.93 (2014: £6.62). 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:

	2015	2014
Share price	£8.85	£8.28
Exercise price	£0.00	£0.00
Expected volatility	19%	19%
Expected life	3.0 years	2.1 years
Expected dividends	3.5%	3.3%
Risk-free interest rate	1.4%	0.4%

26 Shareholders' equity

	2015 £m	2014 £m
Share capital	860	781
Share premium	2,704	1,437
ESOP reserve	(125)	(145)
Hedging reserve	62	(20)
Available-for-sale reserve	(1)	455
Other reserves	120	455
Retained earnings	(455)	(1,891)
	3,165	1,072

Purchase of own equity shares for cancellation

During the prior year at the Company's AGM on 22 November 2013, the Company was granted 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 Inc. (and others) dated 25 July 2013 whereby following any market purchases of shares by the Company 21st 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 21st Century Fox Inc. would be the price payable by the Company in respect of the relevant market purchases (the 2013 Share Buy-back Agreement).

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 Inc. (and others) dated 28 July 2012 on substantially the same terms as the 2013 Share Buy-back Agreement.

Notes to the consolidated financial statements

(continued)

26 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 ¹	Average price paid per share - £
July	-	-
August	-	-
September	1,325,800	8.86
October	-	-
November	-	-
December	-	-
January	-	-
February	-	-
March	-	-
April	-	-
May	-	-
June	-	-
Total for the year ended 30 June 2015	1,325,800	8.86

1 All share purchases were open market transactions and are included in the month of settlement

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 2013	20,527,423	£7.15	147
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
At 30 June 2014	17,308,999	£8.40	145
Share options exercised during the year	(3,829,019)	£8.39	(32)
Shares purchased by the ESOP during the year	1,325,800	£8.86	12
At 30 June 2015	14,805,780	£8.44	125

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 2015 the Group's available-for-sale reserve was a deficit of £1 million (2014: reserve of £455 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 2015 (2014: £190 million). The merger reserve was £125 million as at 30 June 2015 (2014: £222 million). The special reserve was £14 million as at 30 June 2015 (2014: £14 million). The foreign currency translation reserve was £(209) million as at 30 June 2015 (2014: £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. Following the Group's disposal of a controlling stake in Sky Bet, the merger reserve in relation to the purchase of SIG has been transferred to retained earnings. At 30 June 2015 the Group's merger reserve was £125 million (2014: £222 million).

27 Notes to the consolidated cash flow statement**Reconciliation of profit before tax to cash generated from operations**

	2015 £m	2014 £m
Continuing operations		
Profit before tax	1,516	1,025
Depreciation, impairment and losses (profits) on disposal of property, plant and equipment	297	204
Amortisation, impairment and losses (profits) on disposal of intangible assets	469	228
Share-based payment expense	91	60
Net finance costs	275	114
Profit on disposal of available-for-sale investments	(492)	-
Profit on disposal of associate	(299)	-
Share of results of joint ventures and associates	(28)	(35)
	1,829	1,596
Decrease (increase) in trade and other receivables	1	(28)
Decrease in inventories	568	-
(Decrease) increase in trade and other payables	(367)	172
Increase (decrease) in provisions	65	(48)
(Decrease) increase in derivative financial instruments	(16)	4
Cash generated from operations	2,080	1,696

28 Contracted commitments, contingencies and guarantees**a) Future minimum expenditure contracted for but not recognised in the financial statements**

	Less than 1 year £m	Between 1 and 5 years £m	After 5 years £m	Total at 30 June 2015 £m	Total at 30 June 2014 £m
Television programme rights	2,936	8,233	366	11,535	4,401
Set-top boxes and related equipment	305	-	-	305	180
Third-party payments ¹	164	204	-	368	155
Transponder capacity ²	146	683	334	1,163	519
Property, plant and equipment	110	12	-	122	36
Intangible assets ³	49	93	9	151	104
Smartcards ³	55	187	30	272	178
Other	509	546	144	1,199	521
	4,274	9,958	883	15,115	6,094

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

¹ The third-party payment commitments are in respect of distribution agreements for the television channels owned and broadcast by third parties, retained by the Group to retail and commercial subscribers (Sky Distributed Channels).

² Transponder capacity commitments are in respect of the satellites that the Group uses for digital transmissions to both retail subscribers and cable operators.

³ Commitments in relation to the provision of smartcards. Smartcards under development are included within intangible assets. The amounts included above are the expected ongoing smartcard costs based on forecast customer levels.

Notes to the consolidated financial statements (continued)

28 Contracted commitments, contingencies and guarantees (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 £8 million (2014: £17 million).

The Group has guarantees in place relating to the Group's borrowings, see note 22. For an overview of the ongoing investigations and reviews of regulatory and competition matters involving the Group refer to the Regulatory matters section in the Strategic report.

29 Operating lease commitments

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

	2015 £m	2014 £m
Within one year	65	47
Between one and five years	155	117
After five years	190	33
	410	197

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:

	2015 £m	2014 £m
Within one year	2	1
	2	1

Sub-lease rentals primarily relate to property leases.

30 Transactions with related parties and major shareholders

a) Entities with joint control or significant influence

During the year the Group conducted business transactions with companies that form part of the 21st Century Fox Inc. group, a major shareholder in the Company.

Transactions with related parties and amounts outstanding in relation to those transactions and with related parties at 30 June are as follows:

	2015 £m	2014 £m
Supply of goods or services by the Group	45	82
Purchases of goods or services by the Group	(275)	(127)
Amounts owed to the Group	26	5
Amounts owed by the Group	(180)	(134)

At 30 June 2015 the Group had expenditure commitments of £590 million in relation to transactions with related parties (2014: £99 million) which principally related to minimum television programming rights commitments.

Goods and services supplied

During the year the Group supplied programming, airtime, transmission and marketing services to 21st Century Fox Inc. companies.

Purchases of goods and services and certain other relationships

During the year the Group purchased programming and technical and marketing services from 21st Century Fox Inc. companies

On 25 July 2014 the Company announced the placing of 156,132,213 new ordinary shares representing approximately 9.99% of existing issued share capital (see note 25). 21st Century Fox Inc. subscribed for 61,106,496 of these shares so as to maintain its existing percentage shareholding in the Company following the placing.

On 12 November 2014 the Group acquired 100% of Sky Italia Srl and 57.4% of Sky Deutschland AG from 21st Century Fox Inc. For further details see note 31. In addition the Group repaid the loan that Sky Deutschland AG had outstanding with 21st Century Fox Inc. of £105 million. In connection with this Sky disposed of its 21% stake in the National Geographic channel to 21st Century Fox Inc. on the same date. For further details see note 6.

On 12 June 2015 Sky increased its shareholding in Tour Racing Limited ('Team Sky') as a consequence of the transfer to Sky of a 25% shareholding from 21st Century Fox Inc. The shares were purchased for £25 being their par value.

There is an agreement between 21st Century Fox Inc. and the Group pursuant to which it was agreed that for so long as 21st Century Fox Inc. directly or indirectly holds an interest of 30% or more in the Group 21st Century Fox Inc. will not engage in the business of satellite broadcasting in the UK or Ireland.

Share buy-back programme

During the prior year, the Company purchased and subsequently cancelled, 12,140,586 ordinary shares held by 21st Century Fox Inc. as part of its share buy-back programme.

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.

	2015 £m	2014 £m
Supply of services by the Group	26	19
Purchases of goods or services by the Group	(55)	(66)
Amounts owed by joint ventures and associates to the Group	89	8
Amounts owed to joint ventures and associates by the Group	(16)	(11)

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 includes £70 million (2014: £1 million) relating to loan funding. This loan bears interest at a rate of 8.20% (2014: one month LIBOR plus 1%). The maximum amount of loan funding outstanding in total from joint ventures and associates during the year was £70 million (2014: £1 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 2015 was £12 million (2014: £4 million).

During the year US\$2 million (2014: US\$4 million) was paid to the joint venture upon maturity of forward exchange contracts and US\$nil (2014: less than US\$1 million) was received from the joint venture upon maturity of forward exchange contracts.

During the year £1 million (2014: £3 million) was received from the joint venture upon maturity of forward exchange contracts and £3 million (2014: £5 million) was paid to the joint venture upon maturity of forward exchange contracts.

During the year £3 million (2014: £5 million) was received from the joint venture upon maturity of forward exchange contracts and £nil (2014: less than £1 million) was paid to the joint venture upon maturity of forward exchange contracts.

At 30 June 2015 the Group had minimum expenditure commitments of £1 million (2014: £3 million) with its joint ventures and associates.

c) Other transactions with related parties

The Group has engaged in a number of transactions with companies of which some of the Company's Directors are also directors. These do not meet the definition of related-party transactions.

d) Key management

The Group has a related-party relationship with the Directors of the Company. At 30 June 2015 there were 14 (2014: 15) members of key management, all of whom were Directors of the Company. Key management compensation is disclosed in note 8b.

Notes to the consolidated financial statements (continued)

31 Acquisition of subsidiaries

a) Sky Deutschland

On 12 November 2014 the Group acquired 89.05% of the issued share capital of Sky Deutschland AG obtaining control of Sky Deutschland with 87.45% acquired through the offer process and the balance acquired subsequent to the close of the offer acceptance period on 3 November 2014. Sky Deutschland operates a pay TV business in Germany and Austria. Sky Deutschland was acquired to take advantage of growth opportunities, benefits of scale and synergy potential.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are set out in the table below.

	Recognised fair values €m
Recognised amounts of identifiable assets acquired and liabilities assumed	
Intangible assets	1,874
Property, plant and equipment	170
Deferred tax assets	609
Derivative financial assets	13
Inventories	344
Trade and other receivables	73
Cash and cash equivalents	111
Trade and other payables	(627)
Deferred tax liabilities	(494)
Derivative financial liabilities	(5)
Provisions	(13)
Borrowings	(312)
	1,743
Non-controlling interest	(191)
Goodwill	2,848
	4,400
Satisfied by	
Cash	4,323
Fair value of previously held interest	77
Total consideration transferred	4,400
Net cash outflow arising on purchase	
Cash consideration	4,323
Less: cash and cash equivalents acquired	(111)
Net cash outflow arising on purchase	4,212

The fair value of the financial assets acquired includes trade receivables with a fair value of €45 million and a gross contractual value of €108 million. The best estimate at acquisition date of the contractual cash flows not likely to be collected was €63 million.

Goodwill of €2,848 million arising from the acquisition reflects growth opportunities and buyer-specific synergies. None of the goodwill recognised is expected to be deductible for income tax purposes.

The value of the non-controlling interest in Sky Deutschland was estimated by calculating the non-controlling interest's share of net identifiable assets at the acquisition date. At 30 June 2015, the Group held 96.13% of the issued share capital of Sky Deutschland AG.

From the close of the offer acceptance period on 3 November 2014 and prior to obtaining control of Sky Deutschland, the Group acquired a 1.6% equity investment with a carrying value of €72 million. The Group recognised a gain of €5 million within profit on disposal of available-for-sale investments as a result of measuring this investment to fair value as at the date of the acquisition.

Deferred tax assets and liabilities which are shown separately above have been offset where appropriate on the balance sheet.

Acquisition-related costs for the purchase of both Sky Deutschland and Sky Italia (see below) comprised advisory and transaction fees including, inter alia, financial advisory costs, corporate legal advice, due diligence reporting, assurance services and tax advice of €50 million within operating expense, and finance costs of €57 million incurred in connection with €6.6 billion of firm underwritten debt facilities and other associated transaction costs.

For the period between the date of purchase and 30 June 2015, the acquisition contributed €866 million to the Group's revenue and a €22 million loss to the Group's operating profit. If the Group had completed the purchase on the first day of the financial year, it is estimated that the acquisition would have contributed €1,377 million to Group revenue and an €11 million loss to the Group's operating profit for the year.

b) Sky Italia

On 12 November 2014 the Group acquired 100% of the issued share capital of Sky Italia Srl obtaining control of Sky Italia. Sky Italia operates a pay TV business in Italy. Sky Italia was acquired to take advantage of growth opportunities, benefits of scale and synergy potential.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are set out in the table below.

	Recognised fair values £m
Recognised amounts of identifiable assets acquired and liabilities assumed	
Intangible assets	1,780
Property, plant and equipment	360
Deferred tax assets	71
Derivative financial assets	1
Inventories	600
Trade and other receivables	431
Current tax assets	13
Cash and cash equivalents	5
Trade and other payables	(1,092)
Deferred tax liabilities	(403)
Current tax liabilities	(2)
Provisions	(50)
	1,714
Goodwill	752
	2,466
Satisfied by:	
Cash	2,056
Disposal of investment in associate	410
Total consideration transferred	2,466
Net cash outflow arising on purchase	
Cash consideration	2,056
Less: cash and cash equivalents acquired	(5)
Net cash outflow arising on purchase	2,051

The fair value of the financial assets acquired includes trade receivables with a fair value of £305 million and a gross contractual value of £394 million. The best estimate at acquisition date of the contractual cash flows not likely to be collected was £89 million.

Goodwill of £752 million arising from the acquisition reflects growth opportunities and buyer-specific synergies. None of the goodwill recognised is expected to be deductible for income tax purposes.

Deferred tax assets and liabilities which are shown separately above have been offset where appropriate on the balance sheet.

For the period between the date of purchase and 30 June 2015, the acquisition contributed £1,297 million to the Group's revenue and £25 million to the Group's operating profit. If the Group had completed the purchase on the first day of the financial year, it is estimated that the acquisition would have contributed £2,086 million to Group revenue and £61 million to the Group's operating profit for the year.

Notes to the consolidated financial statements (continued)

32 Group investments

The Group and its subsidiaries are involved in the operation of pay television broadcasting and home communications services including the provision of broadband and telephone operations. Certain subsidiary companies provide ancillary functions which support these operations. Joint ventures and associates are involved in the transmission of specialist channels and online betting activities.

Unless otherwise indicated, all share holdings owned directly or indirectly by the Group represent 100% of issued share capital of the subsidiary. All entities primarily operate in their country of incorporation.

Name	Description and proportion of shares held (%)
Subsidiaries	
Direct holdings of the Company	
Incorporated in the UK	
British Sky Broadcasting Group Limited	1 ordinary share of £1
Picnic Limited	2 138 ordinary shares of £1 each
Sky Finance Europe Limited	1 ordinary share of £1
Sky Group Finance plc	50 000 ordinary shares of £1 each
Sky Guarantee Investments Limited	Membership interest (100%)
Sky Operational Finance Limited	31 440 638 ordinary shares of £1 each
Sky Television Limited	13 376 982 ordinary shares of £1 each
Sky UK Limited	10 002 002 ordinary shares of £1 each
Incorporated in the Channel Islands	
Rainbow Finance (Jersey) Limited	100 ordinary shares of £1 1 000 000 preference shares of £0.01 each

Subsidiaries	
Indirect holdings of the Company	
Incorporated in the UK	
365 Media Group Limited	172 ordinary shares of £0.01 each
Amstrad Limited	160 ordinary shares of £0.10 each
British Sky Broadcasting Limited	1 ordinary share of £1
Ciel Bleu 6 Limited	51 850 ordinary shares of £0.01 each
Cymru International Limited	2 ordinary shares of £1 each
Dolphin TV Limited	200 000 ordinary shares of £0.001 each
International Channel Pack Distribution Limited	1 ordinary share of £1
Kidsprog Limited	2 ordinary shares of £1 each
Love Productions Limited	7 724 ordinary shares of £1 each (70%)
MEMSTV Limited	10 ordinary shares of £1 each
Multicultural & Ethnic Media Sales Limited	144 ordinary shares of £1 each
Newserge Limited	100 ordinary shares of £1 each
NOW TV plc	1 ordinary share of £1
Parthenon 1 Limited	1 ordinary share of £1
Parthenon 2 Limited	2 ordinary shares of £1 each
Parthenon Entertainment Limited	100 ordinary shares of £1 each
Parthenon Media Group Limited	2 ordinary shares of £1 each
Rivals Digital Media Limited	200 ordinary shares of £0.01 each
SATV Publishing Limited	100 ordinary shares of £1 each
Sky Channel Limited	1 ordinary share of £1
Sky Comedy Limited	2 ordinary shares of £1 each
Sky CP Limited	1 ordinary share of £1
Sky Europe Limited	1 ordinary share of £1
Sky Global Media plc	1 ordinary share of £1

Name	Description and proportion of shares held (%)
Sky Group Limited	1 ordinary share of £1
Sky Healthcare Scheme 2 Limited	2 ordinary shares of £1 each
Sky History Limited	2 ordinary shares of £1 each
Sky Holdings Limited	600 ordinary shares of £1 each
Sky Home Communications Limited	9 528 124 ordinary shares of £1 each
Sky In-Home Service Limited	1576 000 ordinary shares of £1 each
Sky International Limited	1 ordinary share of £1
Sky International Operations Limited	2 540 916 167 ordinary shares of £1 each
Sky IP International Limited	300 ordinary shares of £1 each
Sky IQ Limited	100 ordinary shares of £1 each
Sky LLU Assets Limited	90 ordinary shares of £1 each
Sky Mobile Services Limited	1 ordinary share of £1
Sky New Media Venture Limited	2 ordinary shares of £1 each
Sky News Limited	1 ordinary share of £1
Sky Publications Limited	2 ordinary shares of £1 each
Sky Retail Stores Limited	5 001 055 ordinary shares of £0.01 each
Sky SNA Limited	100 ordinary shares of £1 each
Sky SNI Limited	100 ordinary shares of £1 each
Sky SNI Operations Limited	200 ordinary shares of £1 each
Sky Subscribers Services Limited ¹	5 ordinary shares of £1 each
Sky Telecommunications Limited	1 000 ordinary shares of £1 each
Sky Telecommunications Services Limited	5 821 764 ordinary shares of £1 each
Sky Ventures Limited	912 ordinary shares of £1 each
The Cloud Networks Limited	30 583 988 ordinary shares of £0.00025 each
Tour Racing Limited ²	85 ordinary shares of £1 each (85%)
Virtuous Systems Limited	125 ordinary shares of £1 each
Znak Jones Productions Limited	1 ordinary share of £1

Incorporated in Germany	
B5kyB GmbH	2 ordinary shares of €25 000 and €100
Premiere WIN Fernsehen GmbH	2 ordinary shares of €25 000 each
SCAS Satellite CA Services GmbH	1 ordinary share of €25 000 each
Sky Deutschland AG	931 114 937 ordinary shares of €1 each (96.13%)
Sky Deutschland Customer Center GmbH	25 000 ordinary shares of €1 each
Sky Deutschland Fernsehen GmbH & Co. KG	Partnership interest (100%)
Sky Deutschland Service Center GmbH	1 ordinary share of €25 000
Sky Deutschland Verwaltungs GmbH	1 ordinary share of €25 000
Sky German Holdings GmbH ³	25 000 ordinary shares of €1 each
Sky Hotel Entertainment GmbH	9 ordinary shares of €17 500, €107 700, €50 000, €88 600, €68 000, €175 700, €17 500, €105 000 and €70 000
Sky Media Network GmbH	2 ordinary shares of €6 025 and €18 975
Sky Österreich Fernsehen GmbH	1 ordinary share of €35 000
The Cloud Networks Germany GmbH ⁴	2 ordinary shares of €975 000 and €25 000

Name	Description and proportion of shares held (%)
Incorporated in Italy	
Sky Italia Srl	Quota interest (100%)
Sky Italian Holdings SpA	121 000 ordinary shares of €1 each
Sky Italia Network Services Srl	Quota interest (100%)
Telepiu Srl	Quota interest (100%)
Incorporated in the USA	
BSkyB US Holdings Inc. ²	100 ordinary shares of \$0.001 each
Callisto Media West LLC ²	Membership interest (100%)
Jupiter Entertainment Holdings LLC ²	Membership interest (60%)
Jupiter Entertainment LLC ²	Membership interest (100%)
Jupiter Entertainment North LLC ²	Membership interest (100%)
Love American Journeys LLC ²	Membership interest (100%)
Love Baking LLC ²	Membership interest (100%)
Love Productions USA Inc. ²	1 000 ordinary shares of \$1 each
Love Sewing LLC ²	Membership interest (100%)
PhotoOps LLC ²	Membership interest (100%)
USA Love Development LLC ²	Membership interest (100%)
Wild West Alaska LLC ²	Membership interest (100%)
Z/TV LLC	Membership interest (51%)
Incorporated in other overseas countries	
Acetrax AG (Switzerland)	12 281 326 ordinary shares of CHF 0.01 each
Sky Channel SA (Belgium)	1 250 ordinary shares of €49.60 each
Sky International AG (Switzerland)	200 000 ordinary shares of CHF 1.00 each
Sky Ireland Limited (Ireland)	1 ordinary share of €1
Sky Manufacturing Services Limited (Hong Kong)	10 000 ordinary shares of HKD 1.00 each
Sky Österreich Verwaltung GmbH (Austria)	1 ordinary share of €36.336
The Cloud Networks Denmark APS (Denmark) ²	125 000 ordinary shares of DKK 1.00 each
The Cloud Networks Nordics AB (Sweden) ²	640 010 ordinary shares of SEK 1.00 each

Name	Description and proportion of shares held (%)
Joint ventures and associates	
Incorporated in the UK	
AETN UK	50 000 ordinary shares of £1 each (50%)
Attheraces Holdings Limited ²	1 584 ordinary shares of £1 each (48.35%) 20 recapitalisation shares of £0.01 each
Bolt Pro Tem Limited	100 ordinary shares of £1 each (33.3%)
Colossus Productions Limited ³	2 000 ordinary shares of £0.01 each (20%)
DTV Services Limited ⁴	6 000 ordinary shares of £1 each (20%)
Internet Matters Limited ²	Membership interest (25%)
Lovesport Productions Limited ⁵	4 999 ordinary shares of £1 each (49.99%)
Nickelodeon UK Limited ⁵	104 ordinary B shares of £0.01 each (40%)
Odeon and Sky Filmworks Limited ²	2 450 ordinary B shares of £1 each (50%)
Paramount UK Partnership ^{4,6}	Partnership interest (25%)
Venture 2009 Limited ²	50 ordinary shares of £1 each (50%)
Incorporated in the Channel Islands	
Cyan Blue Topco Limited	200 556 ordinary A2 shares of £0.01 each (20.06%) 200 contingent value shares of £0.01 each
Incorporated in the UAE	
Sky News Arabia FZ-LLC	47 816 666 ordinary shares of \$1 each (50%)
Incorporated in Australia	
Australian News Channel Pty Limited	1 ordinary share of AUD\$1 (33.3%)

- 1 This entity has an accounting reference date of 1 January
- 2 These entities have an accounting reference date of 31 December
- 3 These entities have an accounting reference date of 31 March
- 4 This entity has an accounting reference date of 31 May
- 5 These entities have an accounting reference date of 30 September
- 6 The registered address of Paramount UK Partnership is 17-19 Hawley Crescent Camden London NW1 8TT. 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

The following companies are exempt from the requirements relating to the audit of individual accounts for the year/period ended 30 June 2015 by virtue of section 479A of the Companies Act 2006: Kidspro Limited (02767224), Parthenon Media Group Limited (06944197), Picnic Limited (05348872), S A TV Publishing Limited (01085975), Sky IP International Limited (07245844), Sky Operational Finance Limited (02906994) and Sky Television Limited (01518707)

Notes to the consolidated financial statements (continued)

33 Events after the reporting period

As announced on 17 February 2015 Sky initiated the necessary steps for the transfer of the remaining approximately 4% minority shareholdings in Sky Deutschland. The requisite shareholder resolution was subsequently approved by 99.4% of the votes cast at an Extraordinary General Meeting of Sky Deutschland on 22 July 2015 and we expect the formal transfer of the minority shareholdings to be effective in the second quarter of the 2015/16 financial year.

34 Sky plc company only financial statements

Company Income Statement for the year ended 30 June 2015

	Notes	2015 £m	2014 £m
Revenue		229	225
Operating expense		(97)	(44)
Operating profit		132	181
Dividend income from subsidiaries	O	510	622
Investment income	B	131	64
Finance costs	B	(201)	(81)
Profit before tax	C	572	786
Taxation	D	(24)	(36)
Profit for the year attributable to equity shareholders		548	750

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

Company Statement of Comprehensive Income for the year ended 30 June 2015

	2015 £m	2014 £m
Profit for the year attributable to equity shareholders	548	750
Other comprehensive income		
Amounts recognised directly in equity that may subsequently be recycled to the income statement		
Gain (loss) on cash flow hedges	76	(79)
Tax on cash flow hedges	(16)	18
	60	(61)
Amounts reclassified and reported in the income statement		
(Loss) gain on cash flow hedges	(113)	97
Tax on cash flow hedges	23	(23)
	(90)	75
Other comprehensive (loss) income for the year (net of tax)	(30)	14
Total comprehensive income for the year attributable to equity shareholders	518	764

All results relate to continuing operations.

Company Balance Sheet
as at 30 June 2015

	Notes	2015 £m	2014 £m
Non-current assets			
Investments in subsidiaries	E	9 517	8 146
Other receivables	G	6	2
Derivative financial assets	J	358	175
Deferred tax assets	F	1	-
		9 882	8 323
Current assets			
Other receivables	G	7 859	3 008
Cash and cash equivalents		-	1
Derivative financial assets	J	55	-
		7 914	3 009
Total assets		17 796	11 332
Current liabilities			
Other payables	I	3 479	3 613
Derivative financial liabilities	J	55	-
		3 534	3 613
Non-current liabilities			
Borrowings	H	6 723	1 557
Derivative financial liabilities	J	74	156
Deferred tax liabilities	F	-	4
		6 797	1 717
Total liabilities		10 331	5 330
Share capital	L	860	781
Share premium	L	2 704	1 437
Reserves		3 901	3 784
Total equity attributable to equity shareholders		7 465	6 002
Total liabilities and shareholders' equity		17 796	11 332

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

The financial statements of Sky plc, registered number 02247735, have been approved by the Board of Directors on 25 July 2015 and were signed on its behalf by


Jeremy Parroch
Group Chief Executive Officer


Andrew Griffiths
Group Chief Financial Officer

Notes to the consolidated financial statements

(continued)

34 Sky plc company only financial statements (continued)

Company Cash Flow Statement

for the year ended 30 June 2015

	Notes	2015 £m	2014 £m
Cash flows from operating activities			
Cash generated from operations	M	-	-
Net cash from operating activities		-	-
Cash flows from financing activities			
Proceeds from the exercise of share options		10	11
Loan to subsidiaries		(11)	(10)
Net cash (used in) from financing activities		(1)	1
Net (decrease) increase in cash and cash equivalents		(1)	1
Cash and cash equivalents at the beginning of the year		1	-
Cash and cash equivalents at the end of the year		-	1

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

Company Statement of Changes in Equity

for the year ended 30 June 2015

	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
At 1 July 2014	797	1,437	14	174	844	(147)	(13)	3,019	6,125
Profit for the year	-	-	-	-	-	-	-	750	750
Recognition and transfer of cash flow hedges	-	-	-	-	-	-	18	-	18
Tax on items taken directly to equity	-	-	-	-	-	-	(4)	-	(4)
Total comprehensive income for the year	-	-	-	-	-	-	14	750	764
Share-based payment	-	-	-	-	-	2	-	(95)	(93)
Share buy-back programme	-	-	-	-	-	-	-	-	-
- Purchase of own shares for cancellation	(16)	-	-	16	-	-	-	(250)	(250)
- Financial liability for close period purchases	-	-	-	-	-	-	-	(59)	(59)
Dividends	-	-	-	-	-	-	-	(485)	(485)
At 30 June 2014	781	1,437	14	190	844	(145)	1	2,880	6,002
Profit for the year	-	-	-	-	-	-	-	548	548
Recognition and transfer of cash flow hedges	-	-	-	-	-	-	(37)	-	(37)
Tax on items taken directly to equity	-	-	-	-	-	-	7	-	7
Total comprehensive income for the year	-	-	-	-	-	-	(30)	548	518
Share-based payment	-	-	-	-	-	20	-	69	89
Reversal of financial liability for close period purchases	-	-	-	-	-	-	-	59	59
Issue of own equity shares	79	1,267	-	-	-	-	-	-	1,346
Dividends	-	-	-	-	-	-	-	(549)	(549)
At 30 June 2015	860	2,704	14	190	844	(125)	(29)	3,007	7,465

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

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

A Accounting policies

Sky plc (the 'Company') is a public limited company incorporated in the United Kingdom and registered in England and Wales

i) Basis of preparation

The Company financial statements have been prepared in accordance with IFRS consistent with the accounting policies set out in note 1 of the Group's consolidated financial statements

ii) Revenue

Revenue which excludes value added tax represents the gross inflow of economic benefit from the Company's operating activities. Revenue is measured at the fair value of the consideration received or receivable. The Company's main source of revenue is from licensing the Company's brand name asset to subsidiaries. This revenue is recognised on an accruals basis under the terms of relevant licensing agreements.

iii) Investment in subsidiaries

An investment in a subsidiary is recognised at cost less any provision for impairment. As permitted by section 133 of the Companies Act 2006 where the relief afforded under section 131 of the Companies Act 2006 applies, cost is the aggregate of the nominal value of the relevant number of the Company's shares and the fair value of any other consideration given to acquire the share capital of the subsidiary undertakings.

Notes to the consolidated financial statements (continued)

34 Sky plc company only financial statements (continued)

B Investment income and finance costs

	2015 £m	2014 £m
Investment income		
Investment income from subsidiaries	130	64
Interest on other loans and receivables with related parties	1	--
	131	64
	2015 £m	2014 £m
Finance costs		
- Interest payable and similar charges		
Facility related costs	(33)	(2)
Guaranteed Notes (see note H)	(168)	(80)
	(201)	(82)
- Other finance income (expense)		
Remeasurement of borrowings and borrowings-related derivative financial instruments (not qualifying for hedge accounting)	462	-
Foreign exchange loss arising on loan with subsidiaries	(462)	-
Loss arising on derivatives in a designated fair value hedge accounting relationship	(19)	(14)
Gain arising on adjustment for hedged item in a designated fair value hedge accounting relationship	19	15
	-	1
	(201)	(81)

Finance costs include £50 million incurred in connection with £6.6 billion of firm underwritten debt facilities and other associated transaction costs relating to the purchase of Sky Deutschland and Sky Italia. These facilities, including the previous RCF, have been repaid or cancelled during the period with the exception of the £1 billion revolving credit facility (RCF) which remains undrawn.

C Profit before taxation

Employee benefits

The Company had nil employees (2014: 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 51 to 69.

D Taxation

i) Taxation recognised in the income statement

	2015 £m	2014 £m
Current tax expense		
Current year	22	37
Total current tax charge	22	37
Deferred tax expense		
Origination and reversal of temporary differences	2	(1)
Total deferred tax charge (credit)	2	(1)
Taxation	24	36

ii) Deferred tax recognised directly in equity

	2015 £m	2014 £m
Deferred tax (credit) charge on hedging activities	(7)	4

iii) Reconciliation of effective tax rate

The tax expense for the year is lower (2014: lower) than the expense that would have been charged using the blended rate of corporation tax in the UK (20.75%) applied to profit before tax. The applicable enacted or substantively enacted effective rate of UK corporation tax for the year was 20.75% (2014: 22.5%). The differences are explained overleaf.

	2015 £m	2014 £m
Profit before tax	572	786
Profit before tax multiplied by blended rate of corporation tax in the UK of 20.75% (2014: 22.5%)	119	177
Effects of		
Non-taxable income	(106)	(140)
Non-deductible expenditure	11	-
Tax rate change	-	(1)
Taxation	24	36

All taxation relates to UK corporation tax

E Investments in subsidiaries

	£m
Cost	
At 1 July 2013	9148
Additions	3
At 30 June 2014	9151
Additions	1371
At 30 June 2015	10522
Provision	
At 1 July 2013 30 June 2014 and 30 June 2015	(1005)
Carrying amounts	
At 1 July 2013	8143
At 30 June 2014	8146
At 30 June 2015	9517

See note 32 for a list of the Company's investments

F Deferred tax

Recognised deferred tax assets (liabilities)

	Financial instruments temporary differences £m
At 1 July 2013	(1)
Credit to income	1
Charge to equity	(4)
At 30 June 2014	(4)
Charge to income	(2)
Credit to equity	7
At 30 June 2015	1

At 30 June 2015 a deferred tax asset of £244 million (2014: £244 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 2015 the Company has also not recognised a deferred tax asset of £1 million (2014: £5 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

	2015 £m	2014 £m
Amounts receivable from subsidiaries	7859	3008
Current other receivables	7859	3008
Non-current prepayment	6	2
Total other receivables	7865	3010

On 1 April 2015 the Company made a loan of €600 million to Sky Operational Finance Limited. This loan bears interest at 3 month EURIBOR plus 0.75% and is repayable on demand.

On 27 November 2014 the Company made a loan of €400 million to Sky Operational Finance Limited. This loan bears interest at 2.750% and is repayable on demand.

Notes to the consolidated financial statements

(continued)

34 Sky plc company only financial statements (continued)

On 24 November 2014 the Company made loans of £200 million £450 million €850 million and €126 million to Sky Operational Finance Limited. These loans bear interest at a rate of 4.000% LIBOR plus 1.2296% 1.875% and 2.940% respectively and are repayable on demand.

On 16 September 2014 the Company made loans of €969 million and €582 million to Sky Operational Finance Limited. These loans bear interest at 2.1867% and EURIBOR plus 0.6563% respectively and are repayable on demand.

On 15 September 2014 the Company made loans of €1,500 million and €1,000 million to Sky Operational Finance Limited. These loans bear interest at 1.500% and 2.500% respectively and are repayable on demand.

On 26 November 2012 the Company issued US\$800 million Guaranteed Notes with a coupon rate of 3.125% and loaned proceeds to Sky Operational Finance Limited. Sky Operational Finance Limited pays the same annual effective interest rate to the Company.

On 24 November 2008 the Company issued US\$600 million Guaranteed Notes with a coupon rate of 9.500% and loaned the proceeds to Sky Operational Finance Limited. Sky Operational Finance Limited pays the same annual effective interest rate to the Company.

On 15 February 2008 the Company issued US\$750 million Guaranteed Notes with a coupon rate of 6.100% and loaned the proceeds to Sky UK Limited. Sky UK Limited pays the same annual effective interest rate to the Company.

All other amounts receivable from subsidiaries are non-interest bearing and are also repayable on demand.

The Directors consider that the carrying amount of other receivables approximates their fair values.

The Company's credit risk is primarily attributable to its other receivables. The majority of its other receivables balance is due from Sky Operational Finance Limited and Sky UK Limited. The risk of these entities defaulting on amounts owed is considered low due to Sky Operational Finance Limited being a conduit to pass through intercompany financing and due to Sky UK Limited's successful operation of pay television broadcasting and home communications services in the UK and Ireland.

H Borrowings

	2015 £m	2014 £m
Non-current borrowings		
US\$750 million of 6.100% Guaranteed Notes repayable in February 2018	474	442
US\$582.8 million of 9.500% Guaranteed Notes repayable in November 2018	372	353
US\$750 million of 2.625% Guaranteed Notes repayable in September 2019	477	-
€600 million of Floating Rate Notes repayable in April 2020	425	-
€450 million of 2.875% Guaranteed Notes repayable in November 2020	445	-
€1,500 million of 1.500% Guaranteed Notes repayable in September 2021	1,058	-
US\$800 million of 3.125% Guaranteed Notes repayable in November 2022	504	466
€850 million of 1.875% Guaranteed Notes repayable in November 2023	602	-
US\$1,250 million of 3.750% Guaranteed Notes repayable in September 2024	787	-
€1,000 million of 2.500% Guaranteed Notes repayable in September 2025	705	-
£300 million of 6.000% Guaranteed Notes repayable in May 2027	296	296
£300 million of 4.000% Guaranteed Notes repayable in November 2029	297	-
€400 million of 2.750% Guaranteed Notes repayable in November 2029	281	-
	6,723	1,557

At 30 June 2015 the Company had in issue the following Guaranteed Notes:

	Hedged Value £m	Interest Rate Hedging		Hedged Interest Rates	
		Fixed £m	Floating £m	Fixed	Floating
US\$750 million of 6.100% Guaranteed Notes repayable in February 2018	387	290	97	6.829%	6m LIBOR +1.892%
US\$582.8 million of 9.500% Guaranteed Notes repayable in November 2018	389	260	129	7.091%	6m LIBOR +5.542%
€450 million of 2.875% Guaranteed Notes repayable in November 2020	450	-	450	-	3m LIBOR +1.230%
US\$800 million of 3.125% Guaranteed Notes repayable in November 2022	503	503	-	3.226%	-
£300 million of 6.000% Guaranteed Notes repayable in May 2027	300	300	-	6.000%	-
£300 million of 4.000% Guaranteed Notes repayable in November 2029	200	200	-	4.000%	-
	2,229	1,553	676		

	Hedged Value €m	Interest Rate Hedging		Hedged Interest Rates	
		Fixed €m	Floating €m	Fixed	Floating
US\$750 million of 2.625% Guaranteed Notes repayable in September 2019	581	-	581	-	3m EURIBOR +0.656%
€600 million of Floating Rate Notes repayable in April 2020	600	-	600	-	3m EURIBOR +0.750%
€1,500 million of 1.500% Guaranteed Notes repayable in September 2021	1,500	1,500	-	1.500%	-
€850 million of 1.875% Guaranteed Notes repayable in November 2023	850	850	-	1.875%	-
US\$1,250 million of 3.750% Guaranteed Notes repayable in September 2024	969	969	-	2.187%	-
€1,000 million of 2.500% Guaranteed Notes repayable in September 2026	1,000	1,000	-	2.500%	-
€300 million of 4.000% Guaranteed Notes repayable in November 2029	126	126	-	2.943%	-
€400 million of 2.750% Guaranteed Notes repayable in November 2029	400	400	-	2.750%	-
	6,026	4,845	1,181		

See note 24 for details of Capital Risk Management and note 22 for details of the Company's Guaranteed Notes in the prior year

I Other payables

	2015 €m	2014 €m
Other payables		
Amounts owed to subsidiary undertakings	3,394	3,536
Amounts owed to other related parties	-	23
Other	-	36
Accruals	85	18
	3,479	3,613

Amounts payable to subsidiaries are non-interest bearing and repayable on demand. The balance comprises €216.4 million of non-interest bearing loans (2014: €216.4 million) and €123.0 million of other payables (2014: €137.2 million). The Directors consider that the carrying amount of other payables approximates their fair values.

J Derivatives and other financial instruments

Fair values

Set out below is a comparison of the carrying values and the estimated fair values of the Company's financial assets and financial liabilities at 30 June 2015 and 30 June 2014.

	2015 Carrying value €m	2015 Fair value €m	2014 Carrying value €m	2014 Fair value €m
Financial assets and liabilities held or issued to finance the Company's operations				
Quoted bond debt	(6,723)	(6,903)	(1,557)	(1,740)
Derivative financial instruments	284	284	19	19
Other payables and receivables	4,380	4,380	(605)	(605)

The fair values of financial assets and financial liabilities are determined as detailed in note 23 and all items held at fair value are classified as Level 2 in the fair value hierarchy.

Set out below are the derivative financial instruments entered into by the Company to manage its interest rate and foreign exchange risk.

	2015				2014			
	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	48	939	-	-	51	452	-	-
Cross-currency swaps	19	466	-	-	-	-	-	-
Cash flow hedges								
Cross-currency swaps	88	1,065	(12)	503	45	290	(36)	503
Derivatives not in a formal hedge relationship								
Interest rate swaps	14	336	(14)	596	31	574	(26)	314
Cross-currency swaps	244	2,065	(103)	1,017	48	725	(94)	1,018
Total	413	4,871	(129)	2,116	175	2,041	(156)	1,835

Notes to the consolidated financial statements

(continued)

34 Sky plc company only financial statements (continued)

Note 23 provides further details of the Group's derivative and other financial instruments

The maturity of the derivative financial instruments is shown below

	2015		2014	
	Asset £m	Liability £m	Asset £m	Liability £m
In one year or less	55	(55)	-	-
Between one and two years	-	-	33	(33)
Between two and five years	211	(34)	122	(67)
In more than five years	147	(40)	20	(56)
Total	413	(129)	175	(156)

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 subsidiaries Sky Group Finance plc and Sky UK Limited 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 £13 million (2014: adverse impact of £16 million) relating to non-cash movements in the valuation of derivatives. The same strengthening would have an adverse impact on other equity of £39 million (2014: adverse impact of £21 million).

A 25% weakening in pounds sterling against the US dollar would have a beneficial impact on profit of £21 million (2014: beneficial impact of £26 million) relating to non-cash movements in the valuation of derivatives. The same weakening would have a beneficial impact on other equity of £65 million (2014: beneficial impact of £36 million).

A 25% strengthening in pounds sterling against the euro would have a beneficial impact on profit by £17 million (2014: nil) relating to non-cash movements in the valuations of derivatives.

A 25% weakening in pounds sterling against the euro would have an adverse impact on profit of £28 million (2014: nil) relating to non-cash movements in the valuation of derivatives.

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 2015 and if all other variables were held constant, the Company's profit for the year ended 30 June 2015 would decrease or increase by £18 million (2014: decrease or increase by £3 million) and other equity reserves would decrease or increase by £6 million (2014: decrease or increase by £1 million).

A one hundred basis point rise or fall in interest rates represents a large but realistic movement which can easily be multiplied to give sensitivities at different interest rates.

The sensitivity analyses provided are hypothetical only and should be used with caution as the impacts provided are not necessarily indicative of the actual impacts that would be experienced because the effect of a change in a particular market variable on fair values or cash flows is calculated without considering interrelationships between the various market rates or mitigating actions that would be taken by the Company. In addition, the Company's actual exposure to market rates changes as the Company's portfolio of debt changes.

The changes in valuations are estimates of the impact of changes in market variables and are not a prediction of future events or anticipated gains or losses.

Liquidity risk

See note 24 for the Company's policy on liquidity management.

The following table analyses the Company's non-derivative financial liabilities: net settled interest rate swaps and gross settled currency swaps and collars into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

The amounts disclosed in the table are the contractual undiscounted cash flows and may therefore not reconcile to the amounts disclosed on the balance sheet for borrowings, derivative financial instruments and other payables.

	Less than 12 months £m	Between one and two years £m	Between two and five years £m	More than five years £m
At 30 June 2015				
Non-derivative financial liabilities				
Bonds - USD	122	122	1 572	1 474
Bonds - GBP	43	43	129	1 309
Bonds - EUR	57	55	595	2 948
Other payables	3 479	-	-	-
Net settled derivatives				
Financial assets	(22)	(21)	(37)	(9)
Gross settled derivatives				
Outflow	1 058	141	1 991	3 147
Inflow	(1 083)	(166)	(2 192)	(3 147)
At 30 June 2014				
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)

At 30 June 2015 the Company had an undrawn £1 000 million RCF with a maturity date of 30 November 2020. See note 22 for further information.

L. Notes to the Company statement of changes in equity

For details of share capital, share premium, the special reserve, the capital redemption reserve and the hedging reserve, see notes 25 and 26.

For details of dividends, see note 11.

Capital reserve

This reserve arose from the surplus on the transfer of trade and assets to a subsidiary undertaking.

M. Reconciliation of profit before tax to cash generated from operations

	2015 £m	2014 £m
Profit before tax	572	786
Dividend income	(510)	(622)
Net finance costs	70	17
Increase in other receivables	(132)	(181)
Cash generated from operations	-	-

Notes to the consolidated financial statements (continued)

34 Sky plc company only financial statements (continued)

N Contingent liabilities and guarantees

The Company and certain of its subsidiaries have undertaken in the normal course of business to provide support to several of the Group's investments in both limited and unlimited companies and partnerships to meet their liabilities as they fall due. Several of these undertakings contain maximum financial limits. These undertakings have been given for at least one year from the date of the signing of the UK statutory accounts of the related entity. A payment under these undertakings would be required in the event of an investment being unable to pay its liabilities.

The Company has provided parent company guarantees in respect of the various contracts entered into with the Premier League by Sky UK Limited – covering the 2013/14 to 2018/19 football seasons. In each case the guarantee covers all payment obligations now or in the future due owing or incurred by Sky UK Limited under the contracts and all liabilities now or in the future arising or incurred under the indemnity given to the Premier League by Sky UK Limited under the contracts.

The Company has provided a parent company guarantee in respect of the contract entered into with Sky UK Limited and Stanhope plc in relation to the construction of a new corporate headquarters at the Osterley Campus. The guarantee covers all performance obligations and payment obligations imposed on Sky UK Limited under that contract.

The Company has provided a back-to-back guarantee in favour of 21st Century Fox Inc of up to half of the annual payment obligations of Sky Deutschland Fernsehen GmbH & Co KG under the 2013/17 Bundesliga agreement. It has also provided back-to-back guarantees in favour of 21st Century Fox Inc in relation to UEFA Champions League and other programming obligations of Sky Italia Srl.

The Company has provided a parent company guarantee to SGH Stream Sub Inc in respect of the obligations of Sky Italian Holdings S.p.A. under the Sky Italia Srl Sale and Purchase Agreement dated 25 July 2014. The Company has also provided a parent company guarantee to 21st Century Fox Adelaide Holdings BV in respect of the obligations of Sky German Holdings GmbH under the Sky Deutschland AG Sale and Purchase Agreement dated 25 July 2014.

The Company has guarantees in place relating to the Group's borrowings – see note 22 – and in relation to audit exemptions – see note 32.

O Transactions with related parties and major shareholders

	2015 £m	2014 £m
Supply of services to subsidiaries	229	225
Interest received from funding to subsidiaries	130	64
Interest on other loans and receivables with related parties	1	-
Amounts owed by subsidiaries	7859	3008
Amounts owed to subsidiaries	(3,394)	(3,536)
Amounts owed to other related parties	-	(23)

The Company has related-party transactions with its subsidiaries by virtue of its status as parent company of the Group. In particular it is normal treasury practice for the Company to lend and borrow cash to and from its subsidiaries as required. Under this policy Sky UK Limited settled liabilities of £130 million and £17 million (2014: £83 million and £nil) on behalf of the Company during the year. Interest is earned on certain loans to subsidiaries.

The Company recognised £229 million (2014: £225 million) for licensing the Sky brand name to subsidiaries. The Company recognised dividends during the year from subsidiaries totalling £510 million (2014: £622 million).

Share buy-back programme

During the prior year the Company purchased and subsequently cancelled 12,140,585 ordinary shares held by 21st Century Fox Inc as part of its share buy-back programme.

The Group's related-party transactions are disclosed in note 30.

P Events after the reporting period

For details – see note 33 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

	Year ended 30 June 2015 £m	Year ended 30 June 2014 £m	Year ended 30 June 2013 £m	Year ended 30 June 2012 £m	Year ended 30 June 2011 £m
Consolidated Income Statement					
Continuing operations					
Revenue ¹	9 989	7 450	7 082	6 678	6 518
Operating expense ²	(9 017)	(6 346)	(5 835)	(5 469)	(5 467)
Operating profit	972	1 104	1 247	1 209	1 051
Share of results of joint ventures and associates	28	35	46	39	34
Investment income	8	26	28	18	9
Finance costs	(283)	(140)	(108)	(111)	(111)
Profit on disposal of available-for-sale investment	492	-	-	-	9
Profit on disposal of associate	299	-	-	-	-
Profit before tax	1 516	1 025	1 213	1 155	992
Taxation	(184)	(205)	(267)	(274)	(250)
Profit for the year from continuing operations	1 332	820	946	881	742
Discontinued operations					
Profit for the year from discontinued operations	620	45	33	25	68
Profit for the year	1 952	865	979	906	810
Profit for the year attributable to					
Equity shareholders of the parent company	1 957	865	979	906	810
Non-controlling interests	(5)	-	-	-	-
Net (loss) profit recognised directly in equity	(625)	73	129	64	(8)
Total comprehensive income for the year	1 327	938	1 108	970	802
Earnings per share from profit for the year (in pence)					
Basic	115.8p	55.4p	60.7p	52.6p	46.5p
Diluted	114.4p	54.9p	59.7p	52.2p	45.9p
Dividends per share (in pence)	32.8p	32.0p	30.0p	25.4p	23.3p
Consolidated Balance Sheet					
Non-current assets	10 799	3 876	3 776	3 234	3 025
Current assets	4 559	2 573	2 568	2 275	2 329
Total assets	15 358	6 449	6 345	5 509	5 354
Current liabilities	(4 204)	(2 519)	(2 317)	(2 098)	(1 912)
Non-current liabilities	(7 930)	(2 858)	(3 016)	(2 467)	(2 407)
Net assets	3 224	1 072	1 012	944	1 035
Number of shares in issue (in millions)	1 719	1 563	1 594	1 674	1 753

Group financial record

(continued)

Unaudited supplemental information

Consolidated results

Statistics	Year ended 30 June 2015 (000)	Year ended 30 June 2014 (000)	Year ended 30 June 2013 (000)	Year ended 30 June 2012 (000)	Year ended 30 June 2011 (000)
Products					
UK & Ireland	38 036	34 775	31 634	28 365	25 375
Germany	7133	-	-	-	-
Italy	8 614	-	-	-	-
Total paid-for subscription products	53 783	34 775	31 634	28 365	25 375
Customers					
UK & Ireland	12 001	11 495	11 153	10 606	10 294
Germany	4 280	-	-	-	-
Italy	4 725	-	-	-	-
Retail customers	21 006	11 495	11 153	10 606	10 294
UK & Ireland	4 028	4 041	3 677	3 672	3 522
Germany	146	-	-	-	-
Italy	-	-	-	-	-
Wholesale customers³	4 174	4 041	3 677	3 672	3 522
Total customers	25,180	15 536	14,830	14 278	13 816
Churn					
UK & Ireland	9.8%	10.9%	10.7%	10.2%	10.4%
Germany	8.6%	-	-	-	-
Italy	9.6%	-	-	-	-

¹ Included within revenue for the year ended 30 June 2014 is a £15 million credit received following the termination of an escrow agreement with a current wholesale operator

² Included within operating expense for the year ended 30 June 2015 are costs of £50 million in relation to advisory and transaction fees incurred on the purchase of Sky Deutschland and Sky Italia: costs of £105 million relating to corporate restructuring and efficiency programmes: costs of £10 million relating to the integration of Sky Deutschland and Sky Italia in the enlarged Group and costs of £231 million relating to the amortisation of acquired intangibles

Included within operating expense for the year ended 30 June 2014 are costs of £49 million relating to the integration of the O2 consumer broadband and fixed-line telephony business: costs of £40 million relating to a corporate restructuring and efficiency programme: £2 million as a result of the termination of an escrow agreement with a current wholesale operator and £23 million relating to the amortisation of acquired intangibles

Included within operating expense for the year ended 30 June 2013 is a credit of £32 million in relation to a credit note received following an Ofcom determination: a credit of £33 million relating to the final settlement of disputes with a former manufacturer of set-top boxes (net of associated costs): costs of £31 million relating to one-off upgrade of set-top boxes: costs of £33 million relating to a corporate efficiency programme and costs of £15 million relating to the acquisition and integration of the O2 consumer broadband and fixed-line telephony business. Also included are costs of £25 million relating to the programme to offer wireless connectors to selected Sky Movies customers

Included within operating expense for the year ended 30 June 2012 is a credit of £31 million in relation to the News Corporation (subsequently renamed 21st Century Fox, Inc.) proposal in 2011 consisting of costs incurred offset by the receipt of the break fee. Also included are restructuring costs of £11 million which comprise severance payments in relation to approximately 35 senior roles as part of a restructuring initiative to improve operating efficiency

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 21st 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

³ Wholesale customers are customers who take a package from one of Sky's Wholesale Partners in which they receive at least one paid for Sky channel

Factors which materially affect the comparability of the selected financial data

Discontinued operations

During fiscal 2015 the Group sold a controlling stake in its online betting and gaming business. For further details see note 3 to the consolidated financial statements.

During fiscal 2011 the Group sold its business-to-business telecommunications operation Easynet, to LDC.

Available-for-sale investment

During fiscal 2015 the Group disposed of its remaining investment in ITV. For further details see note 5 to the consolidated financial statements.

During fiscal 2011 the Group disposed of its equity investment in Shine and recognised a profit of £9 million.

Business combinations and profit on disposal of associate

During fiscal 2015 the Group completed the acquisitions of Sky Deutschland and Sky Italia. For further details see note 31 to the consolidated financial statements. As part of the consideration for the purchase of Sky Italia the Group disposed of its shareholding in the National Geographic channel. For further details see note 6 to the consolidated financial statements.

During fiscal 2013 the Group completed the acquisition of the O2 consumer broadband and fixed-line telephony business from Telefonica 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. A significant portion of the Group's revenues and expenses associated with its operations in Italy and Germany & Austria are denominated in euros. For a discussion of the impact of exchange rate movements on the Group's financial condition and results of operations see note 24 to the consolidated financial statements.

Non-GAAP measures

Unaudited supplemental information

Consolidated Income Statement – reconciliation of statutory and adjusted numbers

	Notes	2015			
		Statutory £m	Adjusting Items £m	Excluding Adjusting items £m	Adjusted Italy and Germany & Austria pre-acquisition £m
Revenue					Like for Like £m
Subscription		8 518	-	8 518	1179
Transactional		153	-	153	20
Wholesale and syndication		541	-	541	9
Advertising		649	-	649	67
Other		128	-	128	19
		9 989	-	9 989	1 294
Operating expense					
Programming	A	(4 172)	10	(4 162)	(724)
Direct network costs		(840)	-	(840)	-
Sales general and administration	B	(4 005)	386	(3 619)	(538)
		(9 017)	396	(8 621)	(1 262)
EBITDA		1 738	163	1 901	129
Operating profit		972	396	1 368	32
Share of results of joint ventures and associates		28	-	28	
Investment income		8	-	8	
Finance costs	C	(283)	75	(208)	
Profit on disposal of available-for-sale investment	D	492	(492)	-	
Profit on disposal of associate	E	299	(299)	-	
Profit before tax		1 516	(320)	1 196	
Taxation	F	(184)	(67)	(251)	
Profit for the year from continuing operations		1 332	(387)	945	
Loss attributable to non-controlling interests		5	(3)	2	
Profit from continuing operations attributable to equity shareholders of the parent company		1 337	(390)	947	
Earnings per share (basic)		791p	(231p)	560p	

Notes: explanation of adjusting items for the year ended 30 June 2015

- A Costs of £10 million relating to corporate restructuring and efficiency programmes
- B Advisory and transaction fees including, inter alia, financial advisory costs, corporate legal advice, due diligence reporting, assurance services and tax advice of £50 million incurred on the purchase of Sky Deutschland and Sky Italia; costs of £95 million relating to corporate restructuring and efficiency programmes (including amortisation of £2 million in relation to associated intangible assets); costs of £10 million relating to the integration of Sky Deutschland and Sky Italia in the enlarged Group and amortisation of acquired intangible assets of £231 million
- C Finance costs of £57 million incurred in connection with £6.6 billion of firm underwritten debt facilities and other associated transaction costs relating to the purchase of Sky Deutschland and Sky Italia and costs of £18 million relating to the remeasurement of all derivative financial instruments not qualifying for hedge accounting and hedge ineffectiveness
- D Profit on the sale of shareholding in ITV and gain on equity interest in Sky Deutschland held prior to the acquisition
- E Profit on disposal of a shareholding of 21% in NGC Network International LLC and a shareholding of 21% in NGC Network Latin America LLC
- F Tax effect of adjusting items

	Notes	2014			
		Statutory £m	Adjusting Items £m	Excluding Adjusting items £m	Adjusted
					Italy and Germany & Austria full year £m
					Like for Like £m
Revenue					
Subscription		6 278	-	6 278	2 994
Transactional		86	-	86	56
Wholesale and syndication	A	448	(15)	433	91
Advertising		487	-	487	203
Other		151	-	151	(3)
		7 450	(15)	7 435	3 341
Operating expense					
Programming	B	(2 657)	1	(2 656)	(2 006)
Direct network costs	C	(845)	29	(816)	-
Sales general and administration	D	(2 844)	84	(2 760)	(1 353)
		(6 346)	114	(6 232)	(3 359)
EBITDA		1 536	70	1 606	242
Operating profit		1 104	99	1 203	(18)
Share of results of joint ventures and associates		35	-	35	-
Investment income		26	-	26	(816)
Finance costs	E	(140)	5	(135)	-
Profit before tax		1 025	104	1 129	-
Taxation	F	(205)	(32)	(237)	-
Profit for the year from continuing operations		820	72	892	-
Earnings per share (basic)		52.5p	4.6p	57.1p	-

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
- B Costs of £1 million relating to a corporate restructuring and efficiency programme
- C Costs of £29 million relating to the integration of the O2 consumer broadband and fixed-line telephony business
- D Cost of £20 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), costs of £39 million in relation to a corporate restructuring and efficiency programme (including impairments of £2 million in relation to associated intangible and tangible assets), costs of £23 million in relation to amortisation of acquired intangible assets and cost of £2 million relating to an expense as a result of the termination of an escrow agreement with a current wholesale operator
- E Remeasurement of all derivative financial instruments not qualifying for hedge accounting and hedge ineffectiveness
- F 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 2015

	Note	2015 £m	2014 £m
Cash generated from continuing operations	27	2 080	1 696
Interest received and dividends from available-for-sale investments		9	27
Taxation paid		(219)	(229)
Dividends received from joint ventures and associates		25	32
Net funding to joint ventures and associates		(10)	(6)
Purchase of property plant and equipment		(385)	(238)
Purchase of intangible assets		(357)	(302)
Interest paid		(246)	(137)
Free cash flow		897	843
Cash paid relating to advisory and transaction fees and finance costs incurred on the purchase of Sky Deutschland and Sky Italia		110	-
Cash paid relating to corporate restructuring and efficiency programme		34	12
Cash paid relating to the integration of Sky Deutschland and Sky Italia in the enlarged Group		8	-
Cash paid under provisions recognised in prior periods		5	27
Cash paid relating to the integration of the O2 consumer broadband and fixed-line telephony business		3	22
Payment (receipt) following termination of an escrow agreement with a current wholesale operator		3	(19)
Adjusted free cash flow		1 060	885

Where appropriate amounts above are shown net of applicable corporation tax

Shareholder information

Annual General Meeting

The venue and timing of the Company's 2015 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

Financial calendar

Results for the financial year ending 30 June 2016 will be published in

October 2015
January 2016*
April 2016*
July 2016*

Provisional dates

The Sky website

Shareholders are encouraged to visit the Sky website sky.com which has a wealth of information about the Company. There is a section designed specifically for investors at 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

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. 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
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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 our 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.

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 (ADR)

The Company's ADR programme trades on the over-the-counter (OTC) market in the US. More information can be obtained from the Company's corporate website at sky.com/corporate.

All enquiries relating to the Company's ADRs should be addressed to

BNY Mellon Shareowner Services
PO Box 30170
College Station, TX 77842-3170
US residents (888) 269 2377
If resident outside the US +1 201 680 6825
email shrrelations@cpushareownerservices.com

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Company registration number

2247735

Auditor

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For more about how we're making a wider contribution go to sky.com/biggerpicture

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