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Sky plc

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SKY ID INTERNATIONAL  
LIMITED —  
7245844  
Annual Report 2016

Registered in England  
No. 2247735

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

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

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

## Europe's leading investor in content

£5.2<sub>bn</sub>annual content  
investment

600+

pay channels  
across the group

## Offering customers world-leading entertainment

80,000+

hours of live  
sports coverage6.5<sub>m</sub>+average audience of  
Game of Thrones Season 6

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

Our financial performance<sup>1</sup>£12<sub>bn</sub>

revenue

£1.6<sub>bn</sub>

operating profit

63.1<sub>p</sub>

earnings per share

## Our contribution to wider society

130,000

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

370,000

young people participated  
in Sky Academy since launch

10 years

carbon neutral

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

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

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

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

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

James Murdoch

### Sustained strong performance in the UK and Ireland

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

### Significant progress in Germany and Austria

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

### Momentum in Italy

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

## World-class content

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

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

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

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

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

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

## How we do business

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

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

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

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

## Our people

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

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

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

## Outlook

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

Jeremy Darroch

## Our business model

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

Our strengths	<b>Great content</b> <p>We invest to deliver the best and broadest range of content rights across the portfolio of channels and services we provide to customers offering something for everyone in the household. We partner with content owners to secure the very best content from around the world and produce our own original productions.</p>	<b>Market-leading innovation</b> <p>We combine our investment in technologies with our deep understanding of customers to offer a great viewing experience whenever, wherever and however our customers want to watch.</p>	<b>Our customer focus</b> <p>We are a customer-centric organisation focused on meeting the needs of all our customers in every market. We are able to meet their needs through the strength of our trusted brand, by ensuring that we offer a market-leading TV experience and our commitment to superior customer service.</p>
	<b>Growing pay TV penetration</b> <p>Across our markets there is a significant opportunity for growth, with 65 million households yet to take pay TV. We have further developed our segmented customer offers to ensure we are well placed to persuade more customers to join and stay with Sky.</p>	<b>Selling more to customers</b> <p>We focus on broadening out our range of products and services to offer more to existing customers and address more of their needs. We will begin offering customers in the UK our new mobile phone service later this year.</p>	<b>Scaling adjacent businesses</b> <p>We create and pursue opportunities in adjacent sectors such as advertising, transactional services and international programme sales to create and grow additional revenue streams.</p>
Growth opportunities			

## How we create value

### Investing for the long term

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

### Driving efficiency

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

### Seeing the Bigger Picture

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

### Investing in people

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

## Operational key performance indicators

### Retail customers

#### Description

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

#### Analysis

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

2016 21.8m

+4%

2015 21.0m

2014 20.0m

### Total products

#### Description

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

#### Analysis

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

2016 57.1m

+6%

2015 53.8m

2014 49.2m

### Programming investment

#### Description

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

#### Analysis

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

2016 £5,163m

+6%

2015 £4,850m

2014 £4,626m

### Connected homes

#### Description

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

#### Analysis

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

2016 10.9m

+21%

2015 9.0m

2014 6.8m

## Seeing the Bigger Picture

### Social reach

157,700

#### Description

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

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

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

#### Analysis

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

### Carbon intensity

10.57tCO<sub>2</sub>e/£m

#### Description

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

#### Analysis

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



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

In September 2015, we celebrated the completion of Sky Rainforest Rescue, our six-year partnership with WWF through which we helped to raise over £9 million, save one billion trees in the Amazon and raise awareness of deforestation among 73 million people. In the Spring we supported WWF's Earth Hour reaching out to more than 24 million people across Europe through the first ever Earth Hour TV advert and a social media campaign encouraging people to turn off their lights.

For more on our carbon emissions  
see tables on page 66

#### Inclusion

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

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

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

For more on the diversity of our workforce  
see page 65

#### Inspiring action

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

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

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

157k

young people supported across the group in 2016

38%

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

10.57

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

10

years of being carbon neutral

Top 8

sustainable business in Newsweek's Green Rankings

## UK and Ireland

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

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

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

### Content

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

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

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

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

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

### Innovation

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

## Germany and Austria

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

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

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

### Innovation

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

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

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

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

### Content

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

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

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

## Italy

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

We added 17000 retail customers in the year, taking our total customer base to 4.7 million. Our improved content and product proposition helped to drive product growth of 26 000 to a total of 8.6 million.

### Innovation

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

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

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

### Content

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

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

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

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

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

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

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

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

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

## Financial review

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**Andrew Griffith**

Group Chief Operating Officer and Chief Financial Officer

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

### Group financial performance

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

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

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

### Revenue

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

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

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

## Financial review - continued

The Group continues to maintain a strong financial position and has ample headroom to its financial covenants including excellent liquidity with cash of £21 billion as at 30 June 2016 and access to a £1 billion Revolving Credit Facility which remained wholly undrawn throughout the period and which is committed until November 2021. The Group has a well spread portfolio of debt maturities with an average maturity of seven years and no debt maturing prior to October 2017.

### Balance Sheet

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

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

Current assets increased by £143 million to £4 702 million at 30 June 2016 principally due to a £759 million increase in cash and cash equivalents and a £253 million increase in trade and other receivables offset by a £1100 million decrease in short-term deposits.

	As at 1 July 2015 £m	Cash movements £m	Non-cash movements £m	As at 30 June 2016 £m
Current borrowings	494	(514)	51	31
Non-current borrowings	7,418	358	1125	8,901
Borrowings-related derivative financial instruments	(378)	59	(258)	(577)
<b>Gross debt</b>	<b>7,534</b>	<b>(97)</b>	<b>918</b>	<b>8,355</b>
Cash and cash equivalents	(1,378)	(759)	-	(2,137)
Short-term deposits	(1,100)	1,100	-	-
<b>Net debt</b>	<b>5,056</b>	<b>244</b>	<b>918</b>	<b>6,218</b>

# Principal risks and uncertainties

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

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

For more on the Corporate Governance Report see pages 38-48

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

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

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

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

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

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

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

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

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

## Principal risks and uncertainties - continued

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



## Regulatory matters

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

### European Commission investigation

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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# Governance

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**Adine Grate (55)**

Independent Non-Executive Director

**Appointed:** July 2013

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

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

**Dave Lewis (51)**

Independent Non-Executive Director

**Appointed:** November 2012

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

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

**John Nallen (59)**

Non-Executive Director

**Appointed:** November 2015

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

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

**Matthieu Pigasse (48)**

Independent Non-Executive Director

**Appointed:** November 2011

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

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

**Andy Sukawaty (61)**

Senior Independent Director

**Appointed:** June 2013

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

**External Appointments:** In addition to his role as Non-Executive Chairman of Inmarsat plc, Andy has previously held a number of senior management positions in the telecommunications industry including, Chairman of Ziggo 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. Andy is also an Executive in Residence for Warburg Pincus.

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

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

**Non-Executive Directors**

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

**Company Secretary**

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

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

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

**Environment supportive of challenge**

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

**Board agenda**

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

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

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

**Board delegation**

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

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

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

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

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

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

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

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

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

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

#### Time commitment

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

#### Induction and training

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

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

#### Board evaluation

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

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

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

#### Directors' reappointment

In accordance with Code provision B.71, all continuing Executive and Non-Executive Directors will retire and offer themselves for reappointment at the Company's 2016 AGM, with the exception of Dave Lewis who has decided not to seek reappointment this year and will step down from the Board at the conclusion of the AGM. The Board has started the process to appoint a new Independent Non-Executive Director to ensure that the Board continues to be comprised of a majority of Independent Non-Executive Directors.

#### External directorships

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

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

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

## Report of the Audit Committee

### Chairman's overview

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

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

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

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

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

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

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

#### Adine Grate

Committee Chairman

#### Committee composition

Adine Grate (Chairman)

Martin Gilbert

Dave Lewis

Matthieu Pigasse

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

### Attendance at Committee meetings

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

### Audit Committee agenda

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

- Review and recommendation to the Board of the interim and full-year financial statements, including whether the Annual Report is fair, balanced and understandable.
- Review and approval of the first and third quarter trading statements.
- Quarterly updates from the Group COO & CFO on business performance across the Group.
- Audit plans and findings of external and internal audits.
- The review and recommendation to the Board of the dividend policy and proposed payments.
- Liquidity and going concern review.
- Annual reporting due diligence procedures and corporate governance updates, including the new requirement for a viability statement.
- Assessment of the effectiveness of the external audit process and scope of audit.
- Auditor independence and the policy on the provision of non-audit services by the external auditor.
- Quarterly review of non-audit services and fees.
- Quarterly reports from the treasury function on the funding, liquidity, going concern and operational capabilities of the Group and compliance with treasury policies.
- Quarterly updates on planned internal audit work and on the status of Senior Accounting Officer (SAO) certification work to ensure SAO compliance.
- Quarterly reports of all transactions with a related party during the period.
- Review of transactions which fall within the Listing Rule 11.15R 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 matters.

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

### Viability statement

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

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

### Disclosure control and procedures

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

### Auditor independence

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

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

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

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

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

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

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

### Audit and non-audit services

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

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

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

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

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

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

### Effectiveness of external audit process

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

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

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

### Corporate Governance & Nominations Committee agenda

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

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

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

### Activities during the year

#### Board changes

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

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

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

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

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

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

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

The Committee considered the deliberations of the Independent Directors and their recommendations. The Committee noted that the Company would not be in compliance with section A.31 of the UK Corporate Governance Code as he would not fulfil the Code's independence criteria but concluded that James Murdoch was the best candidate for the position and his appointment was in the best interests of the Company and its shareholders.

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

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

#### Committee composition

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

#### Board evaluation

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

#### Independence

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

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

#### Directors' conflicts

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



# Directors' remuneration report

## Annual statement from the Chairman

### Dear Shareholder

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

### Our remuneration policy and principles

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

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

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

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

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

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

### Context and business performance

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

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

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

### Pay for performance outcomes

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

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

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

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

## Directors' remuneration report

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### Our performance at a glance

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

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### Strong alignment with shareholders is critical

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

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### Performance against our key measures has been strong

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

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

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

## Remuneration of the Chairman and Non-Executive Directors

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

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

## Additional policy information

### Shareholder alignment

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

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

# Directors' remuneration report

## Annual remuneration implementation report

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

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

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

#### Annual bonus for 2016 performance

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

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

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

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

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

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

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

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

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

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

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

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

\* i.e. on equivalent gross basis

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

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

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

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

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

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

### TSR Vesting Schedule

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

### Performance conditions for the Co-Investment Plan

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

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

\*ie on equivalent gross basis

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

### TSR performance

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

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

### Group CEO's remuneration

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

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

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

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

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

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

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

# Interests in Sky plc shares (audited)

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

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

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

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

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

## Outstanding share awards Jeremy Darroch (audited)

Date of award	At 30 June 2015	Vested during year	Exercised during year	Lapsed during year	At 30 June 2016	Share price at date of award	Market price on exercise	Date from which exercisable	Expiry date
<b>LTIP<sup>1,2,6</sup></b>									
26 0712	600 000	558 000	558 000	42 000	-	£7 065	£11.50	26 0715	26 0720
26 0713	600 000	558 000	558 000	42 000	-	£8.22	£11.50	26 0715	26 0720
25 0714	600 000	-	-	-	600 000	£8.745	n/a	25 0717	25 0722
29 0715	-	-	-	-	600 000	£11.32	n/a	25 0717	25 0722
<b>CIP Matching<sup>3,4,5,6</sup></b>									
28 0812	184 149	184 149	184 149	-	-	£7.64	£10.42	28 0815	28 08 20
28 0813	162,794	-	-	-	162 794	£8.41	n/a	28 0816	28 08 21
01 0914	163 644	-	-	-	163 644	£8.82	n/a	01 0917	01 09 22
28 0815	-	-	-	-	141 758	£10.42	n/a	28 0818	28 08 23
<b>Sharesave</b>									
30 0914	2 139	-	-	-	2 139	£8.82	n/a	01 02 20	31 0720

## Outstanding share awards Andrew Griffith (audited)

Date of award	At 30 June 2015	Vested during year	Exercised during year	Lapsed during year	At 30 June 2016	Share price at date of award	Market price on exercise	Date from which exercisable	Expiry date
<b>LTIP<sup>1,2,6</sup></b>									
26 0712	320,000	297,600	297,600	22,400	-	£7 065	£11.50	26 0715	26 0720
26 0713	320 000	297 600	297 600	22,400	-	£8.22	£11.50	26 0715	26 0720
25 0714	350 000	-	-	-	350 000	£8.745	n/a	25 0717	25 0722
29 0715	-	-	-	-	350 000	£11.32	n/a	25 0717	25 0722
<b>CIP Matching<sup>3,4,5,6</sup></b>									
28 0812	84 713	84 713	84,713	-	-	£7.64	£10.42	28 0815	28 08 20
28 0813	74 249	-	-	-	74 249	£8.41	n/a	28 0816	28 08 21
01 0914	76 930	-	-	-	76 930	£8.82	n/a	01 0917	01 09 22
28 0815	-	-	-	-	66 938	£10.42	n/a	28 0818	28 08 23
<b>Sharesave</b>									
30 0914	1 271	-	-	-	1 271	£8.82	n/a	01 02 18	31 0718

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

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

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

4 Dividends are payable on shares purchased through the CIP. During the year the Executive Directors received £79 621 43 (2015: £81 725 78).

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

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

## Membership of the Committee

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

## Role of the Committee

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

## Committee activities during the year

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

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

## Advisors to the Committee


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

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

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

Tracy Clarke

Chairman of Remuneration Committee





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

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

### Articles of association

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

### Annual General Meeting

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

## Board of Directors

### Board of Directors and their interests

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

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

### Appointment and retirement of Directors

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

### Alternate Directors

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

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

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

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

## Employees

### Equal opportunities

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

### Diversity and Inclusion

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

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

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

1 As defined in the Companies Act 2006.

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

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

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

### Employee engagement

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

## Other disclosures

### Contracts of Significance

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

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

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

### Significant agreements

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

#### Premier League

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

#### DFL Contract/Bundesliga Rights

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

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

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

#### Serie A

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

#### 21st Century Fox voting agreement

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

#### Revolving Credit Facility

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

#### GMTN Programme bond issue

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

#### Italian broadcasting licences

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

#### Disclosures required under Listing Rule 9.8.4R

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

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

#### Financial instruments

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

#### Political contributions

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

#### Branches

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

#### Going concern

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

#### Disclosure of information to auditors

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

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

#### Auditors

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

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

By order of the Board

Chris Taylor  
Company Secretary  
27 July 2016

# Independent Auditor's report

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

### Opinion on the financial statements of Sky plc

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

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

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

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

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

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

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

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

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

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

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

### Independence

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

Risk	How the scope of our audit responded to the risk
<p><b>Capital expenditure</b></p> <p>The Group's spending on capital projects is material as shown by the total value of additions in notes 13 and 14. The assessment and timing of whether assets meet the capitalisation criteria set out in IAS 16 <i>Property Plant and Equipment</i> and IAS 38 <i>Intangible Assets</i> requires judgement, as set out in the Group's critical accounting policies on page 86. In addition, determining whether there is any indication of impairment of the carrying value of assets being developed or replaced also requires judgement in assessing performance against the investment business case. As a result, there is a risk that the Group's expenditure on intangible and tangible non-current assets is inappropriately capitalised against relevant accounting guidance, that assets not yet in use are not recoverable at their carrying value and that the value of existing assets made obsolete by current year additions may be impaired.</p>	<p>Our procedures performed included:</p> <ul style="list-style-type: none"> <li>• assessing the design, implementation and testing the operating effectiveness of controls in respect of the capitalisation of assets and the identification of potential indicators of impairment</li> <li>• performing sample tests of capital expenditure projects including an examination of management's assessment as to whether the project spend met the recognition criteria set forth in IAS 16 <i>Property Plant and Equipment</i> and IAS 38 <i>Intangible Assets</i> and reviewing the project status reports for the Group's most significant projects to check for indicators of impairment, and</li> <li>• For a sample of capital projects, developing an understanding of the business case, challenging key assumptions and estimates using our business and industry understanding and experience and using external information where relevant, verifying capital project authorisation and tracing a sample of project costs to appropriate evidence.</li> </ul>

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

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

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

### Respective responsibilities of Directors and Auditor

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

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

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

### Scope of the audit of the financial statements

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



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

## Consolidated balance sheet

as at 30 June 2016

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

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

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

Jeremy Darroch  
Group Chief Executive Officer

Andrew Griffith  
Group Chief Operating Officer and Chief Financial Officer

## Consolidated statement of changes in equity

for the year ended 30 June 2016

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

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

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

Financial statements



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

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

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

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

## ii Property plant and equipment

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

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

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

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

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

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

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

## f) Derivative financial instruments and hedging activities

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

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

## i Derivatives that qualify for cash flow hedge accounting

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

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

#### h) Financial assets and liabilities

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

##### i) Available-for-sale investments

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

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

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

##### ii) Trade and other receivables

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

##### iii) Cash and cash equivalents

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

##### iv) Short-term deposits

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

##### v) Trade and other payables

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

#### vi) Borrowings

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

##### i) Impairment

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

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

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

##### j) Provisions

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

##### k) ESOP reserve

Where the Group's ESOP purchases the Company's own equity shares, the cost of those shares, including any attributable transaction costs, is presented within the ESOP reserve as a deduction in shareholders' equity in the consolidated financial statements.

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

#### p) Distributions to equity shareholders

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

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

#### q) Earnings per share

Basic earnings or loss per share represents the profit or loss for the year attributable to equity shareholders of the parent company divided by the weighted average number of ordinary shares in issue during the year excluding the weighted average number of ordinary shares purchased by and held in the Group's ESOP during the year to satisfy employee share awards.

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

#### r) Foreign currency translation

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

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

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

#### s) Reportable segments

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

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

The Group has not yet adopted certain new standards, amendments and interpretations to existing standards which have been published but are only effective for accounting periods beginning on or after 1 July 2016. These new pronouncements are listed below. The Directors are currently evaluating the impact of the adoption of these standards, amendments and interpretations in future periods.

- Amendments to IFRS 11 *Accounting for Acquisitions of Interests in Joint Operations* (effective 1 January 2016)
- Amendments to IAS 1 *Disclosure Initiative* (effective 1 January 2016)
- Amendments to IAS 16 and IAS 38 *'Clarification of Acceptable Methods of Depreciation and Amortisation'* (effective 1 January 2016)
- Annual Improvements 2012-2014 cycle (effective 1 July 2016)
- Amendments to IFRS 10, 12 and IAS 28 *'Investment Entities Applying the Consolidated Exception'* (effective 1 January 2016)\*
- Amendments to IAS 7 *'Disclosure Initiative'* (effective 1 January 2017)\*
- Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses* (effective 1 January 2017)\*
- IFRS 15 *Revenue from Contracts with Customers* (effective 1 January 2018)\*

IFRS 15 requires the identification of deliverables in contracts with customers that qualify as performance obligations. The transaction price receivable from customers must be allocated between the Group's performance obligations under contracts on a relative stand-alone selling price basis.

Where goods or services sold as part of a bundle are concluded to be distinct performance obligations, revenue allocated to such goods is recognised when control of the goods passes to the customer or as the service is delivered.

IFRS 15 requires that certain costs incurred in obtaining and fulfilling customer contracts be deferred on the balance sheet and amortised as revenue is recognised under the related contract.

- Clarifications to IFRS 15 *Revenue from Contracts with Customers* (effective 1 January 2018)\*
  - Amendments to IFRS 2 *'Share-based Payments'* (effective 1 January 2018)\*
  - IFRS 9 *Financial Instruments* (effective 1 January 2018)\*
- The standard is expected to impact the classification and measurement of financial instruments and is expected to require certain additional disclosures.
- IFRS 16 *Leases* (effective 1 January 2019)\*

IFRS 16 replaces IAS 17 *Leases* and will primarily change lease accounting for lessees. Lessor accounting under IFRS 16 is expected to be similar to lease accounting under IAS 17.

Where a contract meets IFRS 16's definition of a lease and where the Group acts as a lessee, lease agreements will give rise to the recognition of a non-current asset representing the right to use the leased item and a loan obligation for future lease payables. Lease costs will be recognised in the form of depreciation of the right to use asset and interest on the lease liability.

\* not yet endorsed for use in the EU

#### v Programming inventory for broadcast (see note 18)

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

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

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

- The frequency with which and the time period over which the programme is expected to be utilised on the Group's linear channels and non-linear services. This is usually based on a combination of the actual period specified in the contract for the programme rights, an initial expectation of when airings will be scheduled and the alternative programming available to the Group within this period. Linear rights are consumed as and when the programmes are broadcast, non-linear rights are consumed over the period the programme is made available
- Expectations as to the number of viewers a programme is likely to achieve for each individual broadcast on the Group's linear channels over the contractual broadcast period. The number of viewers per broadcast directly influences advertising revenue for channels, although this consideration is partly influenced by the Group's assessment of the potential impact of the publicly available information on its competitors' scheduling intentions against planned broadcasts
- The potential benefits associated with utilising programming. Certain high-profile or high-quality programming titles have additional value to the Group as they attract new TV customers and encourage retention of existing TV customers. As such, these programmes are able to retain more value throughout their licence period than would be indicated when considering the expected customer viewing and consumption numbers alone
- The relative value associated with linear channel and non-linear rights is assessed based on the manner in which the Group expects to utilise the programming rights and the relative value perceived by customers for the Group's channels and services. Those relative values may also differ based on the type and genre of programme. Such values are reviewed by the Group against current and expected future trends in customer viewing behaviour for the Group's programming and channels. The value apportioned to non-linear rights (in addition to any separately acquired non-linear rights) is amortised on a straight-line basis over the period of the broadcast rights, as the Group considers this to be the profile most closely aligned to its consumption of those rights. A broadcast-based amortisation model is not relevant or appropriate for this type of right as the Group makes the programmes available for a period of time rather than for a specified number of broadcasts

## Segmental income statement for the year ended 30 June 2015

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

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

Revenue from Programme and Channel Sales was previously labelled Wholesale and Syndication.

Revenue of £7908 million (2015 £7387 million) arises from goods and services provided to the UK and revenue of £4 057 million (2015 £2,602 million) arises from services provided to other countries. Non-current assets located in the UK were £10 686 million (2015 £9,562 million) and non-current assets located outside the UK were £755 million (2015 £609 million).

Included within operating expenses for the year ended 30 June 2016 are

- Costs of £142 million (2015 £105 million) relating to corporate restructuring and efficiency programmes. These costs have been recognised as follows
  - £28 million (2015 £10 million) within Programming
  - £114 million (2015 £95 million) within Sales general and administration (SG&A)
- Costs of £84 million (2015 £10 million) relating to the integration of Sky Deutschland and Sky Italia in the enlarged Group. These costs have been recognised as follows
  - £18 million (2015 nil) within Programming
  - £66 million (2015 £10 million) within SG&A
- Costs of £4 million (2015 £50 million) relating to advisory and transaction fees incurred on the purchase of Sky Deutschland and Sky Italia recognised within SG&A
- Costs of £343 million (2015 £231 million) relating to the amortisation of acquired intangible assets recognised within SG&A
- Costs of £8 million (2015 nil) relating to the remeasurement of derivative financial instruments not qualifying for hedge accounting and hedge ineffectiveness within Programming.

For the period between the date of purchase of Sky Deutschland and Sky Italia and 30 June 2015 Sky Deutschland contributed a £25 million loss to the Group's profit after tax and Sky Italia contributed a £13 million profit to the Group's profit after tax.

#### 4 Investment income and finance costs

	2016 £m	2015 £m
Investment income		
Interest on cash, cash equivalents and short-term deposits	9	8
Interest on other loans and receivables	8	-
	17	8
	2016 £m	2015 £m
Finance costs		
- Interest payable and similar charges	-	-
Facility related costs	(6)	(44)
Guaranteed Notes (see note 22)	(224)	(214)
Finance lease interest	(8)	(7)
	(238)	(265)
- Other finance income (expense)		
Remeasurement of borrowings and borrowings-related derivative financial instruments (not qualifying for hedge accounting)	(12)	(16)
Remeasurement of other derivative financial instruments (not qualifying for hedge accounting)	6	(3)
Gain arising on derivatives in a designated fair value hedge accounting relationship	1	7
Loss arising on adjustment for hedged item in a designated fair value hedge accounting relationship	(1)	(6)
	(6)	(18)
	(244)	(283)

Borrowing costs included in the cost of qualifying assets during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 2.8% (2015: 3.1%) to expenditure on such assets. The amount capitalised in the current year amounted to £14 million (2015: £9 million). Tax relief in the current year on capitalised interest totals £1.5 million (2015: £0.4 million).

In the prior year finance costs included £57 million incurred in connection with £6.6 billion of firm underwritten debt facilities and other associated transaction costs relating to the purchase of Sky Deutschland and Sky Italia. These facilities including the previous revolving credit facility (RCF) were repaid or cancelled in the prior year with the exception of a £1 billion RCF which remains undrawn.

#### 5 Profit on disposal of available-for-sale investments

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

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

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

#### 6 Profit on disposal of associate

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

#### 7 Profit before taxation

Profit before taxation is stated after charging

	2016 £m	2015 £m
Cost of inventories recognised as an expense	4,088	3,331
Depreciation, impairment and losses (profits) on disposals of property, plant and equipment	356	297
Amortisation, impairment and losses (profits) on disposals of intangible assets	637	469
Rentals on operating leases and similar arrangements	95	70
Foreign exchange		
Foreign exchange gains recognised in the income statement during the year amounted to £14 million (2015: gains of £14 million)		

## 9 Taxation

### a) Taxation recognised in the income statement

	2016 £m	2015 £m
Current tax expense		
Current year - UK	224	229
Adjustment in respect of prior years - UK	(29)	(39)
Current year - Overseas	19	62
<b>Total current tax charge</b>	<b>214</b>	<b>252</b>
Deferred tax expense		
Origination and reversal of temporary differences - UK	5	(21)
Adjustment in respect of prior years - UK	9	21
Origination and reversal of temporary differences - Overseas	(130)	(67)
Adjustment in respect of prior years - Overseas	(9)	(1)
<b>Total deferred tax credit</b>	<b>(125)</b>	<b>(68)</b>
<b>Taxation</b>	<b>89</b>	<b>184</b>

### b) Taxation recognised directly in equity

	2016 £m	2015 £m
Current tax credit relating to share-based payments	(21)	(2)
Deferred tax charge (credit) relating to share-based payments	21	(15)
Deferred tax charge relating to cash flow hedges	46	20
	<b>46</b>	<b>3</b>

### c) Reconciliation of effective tax rate

The tax expense for the year is lower (2015: lower) than the expense that would have been charged using the blended rate of corporation tax in the UK (20.0%) applied to profit before tax. The applicable enacted or substantively enacted effective rate of UK corporation tax for the year was 20.0% (2015: 20.75%). The differences are explained below.

	2016 £m	2015 £m
Profit before tax from continuing operations	752	1,516
Profit before tax multiplied by blended rate of corporation tax in the UK of 20.0% (2015: 20.75%)	150	315
Effects of:		
Different statutory tax rates of overseas jurisdictions	(29)	(12)
Disposal of Group investments	(2)	(125)
Net effect of other non-taxable/non-deductible items	26	28
Effect of tax rate changes	(27)	(3)
Adjustments in respect of prior years	(29)	(19)
<b>Taxation</b>	<b>89</b>	<b>184</b>

## 10 Earnings per share

The weighted average number of shares for the year was

	2016 Millions of shares	2015 Millions of shares
Ordinary shares	1,719	1,706
ESOP trust ordinary shares	(12)	(16)
<b>Basic shares</b>	<b>1,707</b>	<b>1,690</b>
Dilutive ordinary shares from share options	14	21
<b>Diluted shares</b>	<b>1,721</b>	<b>1,711</b>

There are no share options (2015: none) which could potentially dilute earnings per share in the future but which have been excluded from the calculation of diluted earnings per share as they are anti-dilutive in the year.

## 12 Goodwill

	£m
Carrying value	
At 1 July 2014	1 019
Purchase of Sky Deutschland	2,848
Purchase of Sky Italia	752
Disposal of Sky Bet	(149)
Foreign exchange movements	(344)
Other	34
<b>At 30 June 2015</b>	<b>4 160</b>
Foreign exchange movements	546
Other	7
<b>At 30 June 2016</b>	<b>4 713</b>

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

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

	2016 £m	2015 £m
UK & Ireland <sup>1</sup>	911	904
Germany & Austria <sup>2</sup>	3 018	2 576
Italy <sup>3</sup>	784	680
	<b>4,713</b>	<b>4 160</b>

Impairment reviews were performed on these goodwill balances at 30 June 2016 which did not indicate impairment.

Recoverable amounts for each of the cash generating units were calculated on the basis of value in use, using cash flows calculated for the next five years as forecast by management. A long-term growth rate of 3% was applied to all units in order to extrapolate cash flow projections beyond this period (2015: 3%). The cash flows of the UK and Ireland CGU were discounted using a pre-tax discount rate of 8% (2015: 8%), the cash flows of the Germany and Austria CGU were discounted using a pre-tax discount rate of 7% (2015: 7%) and the cash flows of the Italy CGU were discounted using a pre-tax discount rate of 9% (2015: 8%).

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

The key assumptions on which the forecast five-year cash flows of each unit were based include the number of gross customer additions, the rate of churn, the average revenue per user, levels of programming spend, acquisition costs per customer and anticipated changes in the product mix and marketing mix of the broadcast activities. The values assigned to each of these assumptions were determined based on the extrapolation of historical trends within the Group and external information on expected future trends in the entertainment and communications industry in each territory.

### 1 UK and Ireland

The UK and Ireland unit includes goodwill arising from the purchase of BiB, Easynet's UK broadband network assets and residential activities, 365 Media's content activities, Amstrad, Living TV, The Cloud and the O2 consumer broadband and fixed-line telephony business. The UK and Ireland unit includes intangibles with indefinite lives of £31 million (2015: £25 million).

### 2 Germany and Austria

The Germany and Austria unit includes goodwill arising from the purchase of Sky Deutschland.

### 3 Italy

The Italy unit includes goodwill arising from the purchase of Sky Italia. The Italy unit includes intangibles with indefinite lives of £546 million (2015: £457 million).



## 14 Property, plant and equipment

	Freehold land and buildings <sup>2</sup> £m	Leasehold improvements £m	Equipment, furniture and fixtures £m	Owned set-top boxes £m	Assets not yet available for use £m	Total <sup>3</sup> £m
<b>Cost</b>						
At 1 July 2014	369	57	1,478	-	107	2,011
Additions from business combinations	-	38	73	355	64	530
Additions	3	3	105	16	261	388
Disposals	(5)	-	(78)	(8)	(1)	(92)
Transfers	24	-	39	45	(108)	-
Foreign exchange movements	-	(3)	(8)	(36)	(6)	(53)
<b>At 30 June 2015</b>	<b>391</b>	<b>95</b>	<b>1,609</b>	<b>372</b>	<b>317</b>	<b>2,784</b>
Additions from business combinations	-	-	3	-	-	3
Additions	4	4	136	128	328	600
Disposals	-	(2)	(70)	(27)	-	(99)
Transfers	19	-	82	71	(172)	-
Foreign exchange movements	-	7	15	72	8	102
<b>At 30 June 2016</b>	<b>414</b>	<b>104</b>	<b>1,775</b>	<b>616</b>	<b>481</b>	<b>3,390</b>
<b>Depreciation</b>						
At 1 July 2014	54	40	829	-	-	923
Depreciation	10	10	194	84	-	298
Impairments	2	-	4	-	-	6
Disposals	(5)	-	(78)	(3)	-	(86)
Foreign exchange movements	-	-	(1)	(2)	-	(3)
<b>At 30 June 2015</b>	<b>61</b>	<b>50</b>	<b>948</b>	<b>79</b>	<b>-</b>	<b>1,138</b>
Depreciation	12	11	190	126	-	339
Impairments	-	-	11	-	-	11
Disposals	-	(2)	(69)	(18)	-	(89)
Foreign exchange movements	-	1	4	29	-	34
<b>At 30 June 2016</b>	<b>73</b>	<b>60</b>	<b>1,084</b>	<b>216</b>	<b>-</b>	<b>1,433</b>
<b>Carrying amounts</b>						
At 1 July 2014	315	17	649	-	107	1,088
At 30 June 2015	330	45	661	293	317	1,646
<b>At 30 June 2016</b>	<b>341</b>	<b>44</b>	<b>691</b>	<b>400</b>	<b>481</b>	<b>1,957</b>

1 The amounts shown include assets held under finance leases with a net book value of £25 million (2015: £31 million). The cost of these assets was £54 million (2015: £48 million) and the accumulated depreciation was £29 million (2015: £17 million). Depreciation charged during the year on such assets was £12 million (2015: £8 million).

2 Depreciation was not charged on £88 million of land (2015: £88 million).

3 In the current year property plant and equipment of £1 million was disposed of as part of the disposal of a subsidiary. As part of the disposal of Sky Bet, which has been treated as a discontinued operation (note 3), property plant and equipment with a carrying value of £9 million was disposed of in the prior year. In addition, £4 million of depreciation in the prior year related to Sky Bet.

## 15. Investments in joint ventures and associates

A list of the Group's investments in joint ventures and associates including the name, country of incorporation and proportion of ownership interest is given in note 31 to the consolidated financial statements.

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

	2016 £m	2015 £m
<b>Share of net assets</b>		
At 1 July	133	173
<b>Movement in net assets</b>		
- Funding	8	10
- Dividends received	(20)	(25)
- Share of profits	2	28
- Acquisition of associate <sup>1</sup>	1	86
- Disposal of associates <sup>2</sup>	-	(149)
- Exchange differences on translation of foreign joint ventures and associates	(1)	10
<b>At 30 June</b>	<b>123</b>	<b>133</b>

1 During the prior year the Group sold a controlling stake in Sky Bet and retained an equity stake of 20% in Sky Bet. See note 3 for further details.

2 During the prior year the Group disposed of its interest in NGC Network International LLC and NGC Network Latin America LLC. See note 6 for further details.

The Group's share of any capital commitments and contingent liabilities of associates and joint ventures is shown in note 28.

## 17 Deferred tax

### i) Recognised deferred tax assets (liabilities)

	Accelerated tax depreciation £m	Intangibles on business combinations £m	Tax losses £m	Short-term temporary differences £m	Share-based payments temporary differences £m	Financial instruments temporary differences £m	Total £m
At 1 July 2014	3	1	-	4	28	(6)	30
(Charge) credit to income	(28)	61	21	(3)	16	(2)	65
Credit (charge) to equity	-	-	-	-	15	(20)	(5)
Acquisition of subsidiaries	-	(895)	589	90	-	(1)	(217)
Effect of change in tax rate							
- Income	3	-	-	-	-	-	3
Foreign exchange movements	2	81	(57)	(8)	-	-	18
At 30 June 2015	(20)	(752)	553	83	59	(29)	(106)
(Charge) credit to income	(11)	78	45	(13)	(8)	7	98
Charge to equity	-	-	-	-	(21)	(49)	(70)
Acquisition of subsidiaries	-	(4)	-	-	-	-	(4)
Effect of change in tax rate							
- Income	1	33	(2)	(3)	(2)	-	27
- Equity	-	-	-	-	-	3	3
Foreign exchange movements	(5)	(116)	100	12	-	(2)	(11)
At 30 June 2016	(35)	(761)	696	79	28	(70)	(63)

Deferred tax assets have been recognised at 30 June 2016 and 30 June 2015 on the basis that, from management's current forecast of the Group's entities, it is probable that there will be suitable taxable profits against which these assets can be utilised. The carrying value of deferred tax assets in excess of deferred tax liabilities principally arising on the acquisition of Sky Deutschland was £243 million as at 30 June 2016 (2015: £147 million). The majority of the deferred tax asset relates to tax losses in the German and Austrian businesses which can be carried forward indefinitely.

The Directors have concluded that it is probable that there will be sufficient future taxable profits against which the German and Austrian losses can be utilised, taking into account the Group's latest available five-year forecast, which was considered by the Company's Board of Directors and extrapolated beyond the forecast period as disclosed in note 12. The forecast shows that the Group will continue to benefit from the utilisation of the tax losses beyond the initial five-year forecasting period.

For further details regarding this judgement, please refer to the Group's critical accounting policies and the use of judgement and estimates section contained in note 1.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the periods in which they reverse. The rate enacted or substantively enacted for the relevant periods of reversal are 19.0% from 1 April 2017 and 18.0% from 1 April 2020 in the UK (2015: 20.0%), 31.4% up to June 2017 and 28.1% thereafter in Italy (2015: 31.4%) and 27.4% in Germany (2015: 27.4%).

The UK Government announced a reduction in the main rate of UK corporation tax to 17.0% from 1 April 2020. The reduction to 17.0% has not been substantively enacted and has not therefore been reflected in the figures above. The impact of the future rate reduction will be accounted for to the extent that it is enacted at future balance sheet dates; however, it is estimated that this will not have a material impact on the Group. Certain deferred tax assets and liabilities have been offset jurisdiction by jurisdiction.

	2016 £m	2015 £m
Deferred tax assets	245	175
Deferred tax liabilities	(308)	(281)
	(63)	(106)

### ii) Unrecognised deferred tax assets

	2016 £m	2015 £m
Tax losses arising from trading (gross 2016: £1,548 million; 2015: £1,352 million)	245	219
Tax losses arising from capital disposals and provisions against investments (gross 2016: £1,380 million; 2015: £1,388 million)	262	278
	507	497

Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profits will be available against which the Group can utilise the losses.

At 30 June 2016, a deferred tax asset of £1 million (2015: £9 million) principally arising from UK trading losses in the Group has not been recognised. These losses can only be offset against taxable profits generated in the entities concerned. There is currently insufficient evidence to support the recognition of a deferred tax asset relating to these losses. The UK trading losses can be carried forward indefinitely.

At 30 June 2016, a deferred tax asset of £244 million (2015: £210 million) has not been recognised in respect of overseas trading losses on the basis that it is not probable that these temporary differences will be utilised. These losses include £243 million (2015: £207 million) with respect to the Group's former investment in KirchPayTV and £1 million (2015: £3 million) with respect to other subsidiaries.

At 30 June 2016, a deferred tax asset of £258 million (2015: £274 million) has not been recognised in respect of capital losses related to the Group's former investment in KirchPayTV on the basis that utilisation of these temporary differences is not probable. At 30 June 2016, the Group also has capital losses with a tax value estimated to be £4 million (2015: £4 million) including impairment of a football club and other investments, which have not been recognised as a deferred tax asset, on the basis that it is not probable that they will be utilised. The capital losses can be carried forward indefinitely.

## 20 Trade and other payables

	2016 £m	2015 £m
Trade payables	1421	1,361
Amounts owed to joint ventures and associates	14	16
Amounts owed to other related parties	181	175
VAT	246	155
Accruals	1,375	1,160
Deferred income	462	401
Other payables	203	162
<b>Current trade and other payables</b>	<b>3,902</b>	<b>3,430</b>
Trade payables	34	31
Amounts owed to other related parties	1	5
Deferred income	7	6
Other payables	39	52
<b>Non-current trade and other payables</b>	<b>81</b>	<b>94</b>
<b>Total trade and other payables</b>	<b>3,983</b>	<b>3,524</b>

The Directors consider that the carrying amount of trade and other payables approximates their fair values. Trade payables principally comprise amounts outstanding for programming purchases and ongoing costs.

## 21 Provisions

	At 1 July 2014 £m	Acquisition of subsidiaries £m	Disposal of subsidiaries £m	Reclassified during the year £m	Provided during the year £m	Utilised during the year £m	Foreign exchange movement £m	At 1 July 2015 £m	Reclassified during the year £m	Provided during the year £m	Utilised during the year £m	Foreign exchange movement £m	At 30 June 2016 £m
<b>Current liabilities</b>													
Restructuring provision <sup>1</sup>	22	10	-	-	9	(19)	(1)	21	4	20	(17)	1	29
Customer-related provisions <sup>2</sup>	2	-	-	-	31	-	-	33	-	47	(15)	-	65
Other provisions <sup>3</sup>	24	3	-	-	34	(12)	-	49	13	47	(23)	1	87
	48	13	-	-	74	(31)	(1)	103	17	114	(55)	2	181
<b>Non-current liabilities</b>													
Other provisions	14	20	(6)	6	25	(6)	(2)	51	(17)	32	(10)	5	61
Employee benefit obligations <sup>4</sup>	-	30	-	-	-	(1)	(3)	26	-	3	(1)	5	33
	14	50	(6)	6	25	(7)	(5)	77	(17)	35	(11)	10	94

1 These provisions relate to costs incurred as part of corporate restructuring and efficiency programmes.

2 These provisions include costs of a programme to replace aged customer equipment.

3 Included in current other provisions are amounts provided for legal disputes, warranty liabilities and onerous contracts for property leases and maintenance. The timing of the cash flows for onerous leases is dependent on the terms of the leases but is expected to continue up to June 2017.

4 In the prior year the Group acquired employee benefit obligations as part of its acquisitions of Sky Deutschland and Sky Italia on 12 November 2014. These obligations are described further below.

### Employee benefit obligations

	Acquired at 12 November 2014 £m	Pension payments £m	Actuarial losses (gains) £m	Foreign exchange movement £m	At 30 June 2015 £m	Pension payments £m	Actuarial losses (gains) £m	Foreign exchange movement £m	At 30 June 2016 £m
Sky Deutschland defined benefit obligations	10	-	1	(1)	10	-	2	2	14
Sky Italia employee benefit obligations	20	(1)	(1)	(2)	16	(1)	1	3	19
	30	(1)	-	(3)	26	(1)	3	5	33



## 22 Borrowings

	2016 €m	2015 €m
<b>Current borrowings</b>		
Loan Notes	6	4
US\$750 million of 5.625% Guaranteed Notes repayable in October 2015 <sup>(i)</sup>	-	468
Obligations under finance leases <sup>(ii)</sup>	25	22
	<b>31</b>	<b>494</b>
<b>Non-current borrowings</b>		
£400 million of 5.750% Guaranteed Notes repayable in October 2017 <sup>(i)</sup>	398	399
US\$750 million of 6.100% Guaranteed Notes repayable in February 2018 <sup>(i)</sup>	559	474
US\$582.8 million of 9.500% Guaranteed Notes repayable in November 2018 <sup>(i)</sup>	435	372
US\$750 million of 2.625% Guaranteed Notes repayable in September 2019 <sup>(i)</sup>	576	477
€600 million of Guaranteed Floating Rate Notes repayable in April 2020 <sup>(i)</sup>	499	425
£450 million of 2.875% Guaranteed Notes repayable in November 2020 <sup>(i)</sup>	470	445
€1,500 million of 1.500% Guaranteed Notes repayable in September 2021 <sup>(i)</sup>	1,243	1,058
US\$800 million of 3.125% Guaranteed Notes repayable in November 2022 <sup>(i)</sup>	597	504
€850 million of 1.875% Guaranteed Notes repayable in November 2023 <sup>(i)</sup>	705	602
US\$1,250 million of 3.750% Guaranteed Notes repayable in September 2024 <sup>(i)</sup>	933	787
€500 million of 2.250% Guaranteed Notes repayable in November 2025 <sup>(i)</sup>	414	-
€1,000 million of 2.500% Guaranteed Notes repayable in September 2026 <sup>(i)</sup>	828	705
£300 million of 6.000% Guaranteed Notes repayable in May 2027 <sup>(i)</sup>	296	296
£300 million of 4.000% Guaranteed Notes repayable in November 2029 <sup>(i)</sup>	297	297
€400 million of 2.750% Guaranteed Notes repayable in November 2029 <sup>(i)</sup>	330	281
US\$350 million of 6.500% Guaranteed Notes repayable in October 2035 <sup>(i)</sup>	259	218
Loan Notes	1	2
Obligations under finance leases <sup>(ii)</sup>	61	76
	<b>8,901</b>	<b>7,418</b>

### (i) Guaranteed Notes

At 30 June 2016, the Group had in issue the following Guaranteed fixed and floating rate notes which were issued by the Company

	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%
£450 million of 2.875% Guaranteed Notes repayable in November 2020	450	-	450	-	3m LIBOR +1.230%
€500 million of 2.250% Guaranteed Notes repayable in November 2025	356	356	-	3.721%	-
	<b>1,582</b>	<b>906</b>	<b>676</b>		

	Interest Rate Hedging			Hedged Interest Rates	
	Hedged Value* €m	Fixed €m	Floating €m	Fixed	Floating
US\$750 million of 2.625% Guaranteed Notes repayable in September 2019	581	-	581	-	3m EURIBOR +0.656%
€600 million of Guaranteed Floating Rate Notes repayable in April 2020	600	-	600	-	3m EURIBOR +0.750%
€1,500 million of 1.500% Guaranteed Notes repayable in September 2021	1,500	1,500	-	1.500%	-
US\$800 million of 3.125% Guaranteed Notes repayable in November 2022	689	689	-	2.118%	-
€850 million of 1.875% Guaranteed Notes repayable in November 2023	850	850	-	1.875%	-
US\$1,250 million of 3.750% Guaranteed Notes repayable in September 2024	969	969	-	2.187%	-
€1,000 million of 2.500% Guaranteed Notes repayable in September 2026	1,000	1,000	-	2.500%	-
£300 million of 6.000% Guaranteed Notes repayable in May 2027	411	411	-	5.006%	-
£300 million of 4.000% Guaranteed Notes repayable in November 2029	399	399	-	3.122%	-
€400 million of 2.750% Guaranteed Notes repayable in November 2029	400	400	-	2.750%	-
	<b>7,399</b>	<b>6,218</b>	<b>1,181</b>		

**(ii) Finance leases**

The minimum lease payments under finance leases fall due as follows

	2016 £m	2015 £m
Within one year	25	22
Between one and five years	37	53
After five years	121	128
	<b>183</b>	<b>203</b>
Future finance charges on finance lease liabilities	(97)	(105)
<b>Present value of finance lease liabilities</b>	<b>86</b>	<b>98</b>

The main obligations under finance leases are in relation to

- finance arrangements in connection with the broadband network infrastructure. During the year, repayments of £9 million (2015: £7 million) were made against the lease. A proportion of these payments have been allocated against the capital outstanding. The lease bears interest at a rate of 11.1% and expires in November 2039.
- finance arrangements in connection with the contact centre in Dunfermline. During the year, repayments of £2 million (2015: £1 million) were made against the lease. A proportion of these payments have been allocated against the capital amount outstanding. The lease bears interest at a rate of 8.5% and expires in September 2020.
- finance arrangements in connection with datacentre equipment. During the year repayments of £3 million (2015: £3 million) were made against the lease. A proportion of these payments have been allocated against the capital amount outstanding. The lease bears interest at a rate of 3.6% and expired in June 2016.
- finance arrangements in connection with set-top boxes. During the year repayments of £9 million (2015: £5 million) were made against the lease. A proportion of these payments have been allocated against the capital amount outstanding. The lease bears interest at a rate of 7% and expires in March 2017.

**(iii) Revolving Credit Facility**

The Group has a £1 billion RCF with a maturity date of 30 November 2021 syndicated across 15 counterparty banks each with a minimum credit rating of Baa2 or equivalent from Standard & Poor's. At 30 June 2016 the RCF was undrawn (2015: undrawn).

The Group is subject to two financial covenants under the RCF: a maximum leverage ratio and a minimum interest cover ratio which are tested at the end of each six-monthly period. The key financial covenants are the ratio of Net Debt to EBITDA (as defined in the loan agreements) and EBITDA to Net Interest Payable (as defined in the loan agreements). Net Debt to EBITDA must be no more than 4.00:1 and EBITDA to Net Interest Payable must be at least 3.50:1. The Group was in compliance with these covenants for all periods presented.

**(iv) Guarantees**

The following guarantees are in place relating to the Group's borrowings: (a) Sky UK Limited, Sky Subscribers Services Limited, Sky Group Finance plc, Sky Telecommunications Services Limited and Sky In-Home Service Limited have given joint and several guarantees in relation to the Company's £1 billion RCF and the outstanding Guaranteed Fixed and Floating Rate Notes issued by the Company; and (b) the Company, Sky UK Limited, Sky Subscribers Services Limited, Sky Telecommunications Services Limited and Sky In-Home Service Limited have given joint and several guarantees in relation to the outstanding Guaranteed Notes issued by Sky Group Finance plc.

**23 Derivatives and other financial instruments**

Set out below are the derivative financial instruments entered into by the Group to manage its interest rate and foreign exchange risks

	2016				2015			
	Asset		Liability		Asset		Liability	
	Fair Value £m	Notional £m	Fair Value £m	Notional £m	Fair Value £m	Notional £m	Fair Value £m	Notional £m
Fair value hedges								
Interest rate swaps	79	1,079	-	-	62	1,275	-	-
Cross-currency swaps	118	466	-	-	18	466	-	-
Cash flow hedges								
Cross-currency swaps	526	2,088	-	-	137	1,435	(12)	503
Forward foreign exchange contracts	361	4,095	(12)	539	148	2,191	(36)	1,065
Net investment hedges								
Cross-currency swaps	-	-	(240)	2,343	150	1,943	(3)	400
Derivatives not in a formal hedge relationship								
Cross-currency swaps	100	522	-	-	51	353	(25)	390
Forward foreign exchange contracts	50	818	(43)	702	17	244	(7)	460
Interest rate swaps	-	-	(6)	260	-	-	-	260
Embedded Derivative	-	-	(8)	86	-	-	-	-
<b>Total</b>	<b>1,234</b>	<b>9,068</b>	<b>(309)</b>	<b>3,930</b>	<b>583</b>	<b>7,907</b>	<b>(83)</b>	<b>3,078</b>

**Financial instruments****(a) Carrying value and fair value**

The accounting classification of each class of the Group's financial assets and financial liabilities together with their fair values is as follows

	Held to maturity investments £m	Available- for-sale £m	Derivatives deemed held for trading £m	Derivatives in hedging relationships £m	Loans and receivables £m	Other liabilities £m	Total carrying value £m	Total fair value £m
<b>At 30 June 2016</b>								
Quoted bond debt	-	-	-	-	-	(8,839)	(8,839)	(9,427)
Derivative financial instruments	-	-	93	832	-	-	925	925
Trade and other payables	-	-	-	-	-	(3,309)	(3,309)	(3,309)
Provisions	-	-	-	-	-	(204)	(204)	(204)
Obligations under finance leases and other borrowings	-	-	-	-	-	(93)	(93)	(93)
Available-for-sale investments	-	71	-	-	-	-	71	71
Trade and other receivables	-	-	-	-	1,131	-	1,131	1,131
Cash and cash equivalents	825	-	-	-	1,312	-	2,137	2,137
<b>At 30 June 2015</b>								
Quoted bond debt	-	-	-	-	-	(7,808)	(7,808)	(8,083)
Derivative financial instruments	-	-	36	464	-	-	500	500
Trade and other payables	-	-	-	-	-	(2,894)	(2,894)	(2,894)
Provisions	-	-	-	-	-	(129)	(129)	(129)
Obligations under finance leases and other borrowings	-	-	-	-	-	(104)	(104)	(104)
Available-for-sale investments	-	31	-	-	-	-	31	31
Trade and other receivables	-	-	-	-	807	-	807	807
Short-term deposits	1,100	-	-	-	-	-	1,100	1,100
Cash and cash equivalents	50	-	-	-	1,328	-	1,378	1,378

The fair values of financial assets and financial liabilities are determined as follows

- The fair value of financial assets and financial liabilities (which includes our quoted bond debt) with standard terms and conditions and which are traded on active liquid markets is determined with reference to quoted market prices based on level 1 of the fair value hierarchy. The fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments
- Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts
- Interest rate and cross-currency swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates and
- The fair value of obligations under finance leases and other borrowings is estimated by discounting the future cash flows to net present value. The fair value of short-term deposits and cash and cash equivalents is equivalent to carrying value due to the short-term nature of these instruments

The differences between carrying values and fair values reflect unrealised gains or losses inherent in the financial instruments based on valuations as at 30 June 2016 and 30 June 2015. The volatile nature of the markets means that values at any subsequent date could be significantly different from the values reported above.

Cash and cash equivalents classified as held to maturity investments comprise money market deposits which have maturity dates of less than three months from inception. Money market deposits, enhanced return investments and tri-party repurchase agreements which have maturity greater than three months from inception are classified as short-term deposits.

Cash and cash equivalents classified as loans and receivables mainly comprise investments in AAAm rated money market funds which can be withdrawn without notice.

## 24 Financial risk management

### Group Treasury activity

The Group's Treasury function is responsible for raising finance for the Group's operations together with associated liquidity management and management of foreign exchange, interest rate and credit risks. Treasury operations are conducted within a framework of policies and guidelines authorised and reviewed annually by both the Audit Committee and the Board, which receive regular updates of Treasury activity. Derivative instruments are transacted for risk management purposes only. It is the Group's policy that all hedging is to cover known risks and no speculative trading is undertaken. Regular and frequent reporting to management is required for all transactions and exposures, and the internal control environment is subject to periodic review by the Group's internal audit team.

The Group's principal market risks are exposures to changes in interest rates and foreign exchange rates, which arise both from the Group's sources of finance and its operations. Following evaluation of those market risks, the Group selectively enters into derivative financial instruments to manage these exposures. The principal instruments currently used are interest rate swaps to hedge interest rate risks, and cross-currency swaps and forward foreign exchange contracts to hedge transactional and translational currency exposures.

### Interest rate risk

The Group has financial exposures to UK, euro and US interest rates, arising primarily from the Group's long-term bonds and other borrowings. The Group's hedging policy requires that between 50% and 85% of borrowings are held at fixed rates. This is achieved by issuing fixed rate bonds or floating rate notes and then using interest rate swaps to adjust the balance between fixed and floating rate debt. The Group's bank debt is at floating rates, and if drawn, would mean that the mix of fixed and floating rate debt would fluctuate and would therefore be managed to ensure compliance with the Group's hedging policy. At 30 June 2016, 80% of borrowings were held at fixed rates after hedging (2015: 76%).

The Group uses derivatives to convert all of its US dollar-denominated debt and associated interest rate obligations to pounds sterling or euros (see section on foreign exchange risk for further detail). At 30 June 2016, the Group had no net US dollar denominated interest rate exposure on its borrowings.

The Group designates certain interest rate swaps as hedges of interest rate risk and certain cross-currency swaps as fair value hedges of both interest rate risk and currency risk. Movements in the fair value of the hedged exposure are taken to the income statement and are offset by movements in the fair value of the hedging instruments, which are also taken to the income statement. Any hedge ineffectiveness is recognised directly in the income statement. In the year ended 30 June 2016, this amounted to £1 million (2015: £1 million).

At 30 June 2016 and 30 June 2015, the Group's annual finance costs would increase or decrease by less than £1 million for a one-notch downgrade or upgrade in credit rating assuming the RCF remains undrawn.

### Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivative and non-derivative financial instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date is outstanding for the whole year.

For each one hundred basis point rise or fall in interest rates, and if all other variables were held constant at 30 June 2016:

- The Group's profit for the year ended 30 June 2016 would increase or decrease by £34 million (2015: profit for the year would increase or decrease by less than £1 million).
- Other equity reserves would decrease or increase by £33 million (2015: decrease or increase by £12 million) arising from movements in cash flow hedges.

A one hundred basis point rise or fall in interest rates represents a large but realistic movement which can easily be multiplied to give sensitivities at different interest rates.

The sensitivity analyses provided are hypothetical only and should be used with caution as the impacts provided are not necessarily indicative of the actual impacts that would be experienced because the Group's actual exposure to market rates changes as the Group's portfolio of debt, cash and foreign currency contracts changes. In addition, the effect of a change in a particular market variable on fair values or cash flows is calculated without considering interrelationships between the various market rates or mitigating actions that would be taken by the Group. The changes in valuations are estimates of the impact of changes in market variables and are not a prediction of future events or anticipated gains or losses.

### Foreign exchange risk

A combination of cross-currency and interest rate swap arrangements is used to convert the Group's debt and associated interest rate obligations to pounds sterling or euros, at fixed exchange rates. At 30 June 2016, the split of the Group's aggregate borrowings into their core currencies was US dollar 38%, euros 45% and pounds sterling 17% (2015: US dollar 42%, euros 39% and pounds sterling 19%). At 30 June 2016, 26% of the Group's long-term borrowings, after the impact of derivatives, are denominated in pounds sterling and 74% in euros (2015: 30% in pounds sterling and 70% in euros).

The Group is exposed to currency translation on the consolidation of its foreign operations. It uses certain borrowings and derivative instruments to hedge its net investments in these subsidiaries.

The majority of the Group's revenues and operating expenses are denominated in pounds sterling. In the current year, approximately 31% of operating expenses (£3,461 million) was denominated in euros (2015: approximately 24% (£2,206 million)) and approximately 10% of operating expenses (£1,096 million) was denominated in US dollars (2015: approximately 8% (£758 million)). In the current year, approximately 33% of revenues (£3,946 million) was denominated in euros (2015: 25% (£2,572 million)).

Following the acquisitions of Sky Deutschland and Sky Italia, the Group Treasury function hedges the foreign currency exposure of its foreign subsidiaries into its local reporting currency. In all territories, the US dollar expense relates mainly to the Group's programming contracts with US suppliers, together with US dollar-denominated set-top box costs. In the UK, the euro revenues primarily relate to subscribers located in Ireland. The UK's exposure to euro-denominated revenue is offset to a certain extent by euro-denominated costs, related mainly to certain transponder costs and euro financing costs on its borrowings, the net position being a euro surplus (2015: surplus).



### Hedge accounting

The interest rate and foreign exchange rate risk sections above outline the Group's policies regarding use of derivative products. Further detail on valuations and the impact of hedge accounting during the year are provided in note 23

### Credit risk

The Group is exposed to counterparty default risk arising in respect of invested cash and cash equivalents and short-term deposits and the positive fair value of derivative financial assets held

This risk is deemed to be low. Counterparty risk forms a central part of the Group's Treasury policy which is monitored and reported on regularly. The Group manages credit risk by diversifying its exposures across a wide number of counterparties such that the maximum exposure to any individual counterparty was 7% of the total asset value of instruments at the end of the year. Treasury policies ensure that all derivative transactions are only effected with strong relationship banks and at the date of signing, each existing derivative counterparty carried a minimum credit rating of Baa2 or equivalent from Standard & Poor's. To mitigate remaining risks, counterparty credit and sovereign ratings are closely monitored and no more than 10% of cash deposits are held with a single bank counterparty (with the exception of overnight deposits which are invested in a spread of AAAf rated liquidity funds).

The amount recognised in the income statement in respect of credit risk for derivatives deemed held for trading is £2 million (2015: £1 million)

Credit risk in our residential customer base is mitigated by billing and collecting in advance for digital television subscriptions for the majority of our residential customer base. The Group's maximum exposure to credit risk on trade receivables is the carrying amounts as disclosed in note 19

### Liquidity risk

Our principal source of liquidity is cash generated from operations combined with access to a £1 billion RCF which expires in November 2021. At 30 June 2016, this facility was undrawn (30 June 2015: undrawn)

To ensure continuity of funding, the Group's policy is to ensure that available funding matures over a period of years. At 30 June 2016, 70% (2015: 70%) of the Group's total available funding (including available undrawn amounts on our RCF) was due to mature in more than five years

Full details of the Group's borrowings and undrawn facilities are shown in note 22, other than trade and other payables, shown in note 20 and provisions shown in note 21

The following table analyses the Group's non-derivative financial liabilities, net settled derivative financial instruments and gross settled financial instruments into relevant maturity groupings, based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows and may therefore not reconcile to the amounts disclosed on the balance sheet for borrowings, derivative financial instruments, provisions and trade and other payables

	Less than 12 months £m	Between one and two years £m	Between two and five years £m	More than five years £m
<b>At 30 June 2016</b>				
Non-derivative financial liabilities				
Bonds - USD	162	725	1,257	2,202
Bonds - EUR	73	74	719	3,855
Bonds - GBP	66	466	579	816
Obligations under finance leases and other borrowings	31	12	26	121
Trade and other payables	3,017	154	14	18
Provisions	132	7	23	15
Net settled derivatives	(25)	(25)	(25)	-
Financial assets				
Gross settled derivatives	3,167	2,154	3,250	4,611
Outflow	(3,366)	(2,102)	(3,638)	(4,945)
Inflow				
<b>At 30 June 2015</b>				
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	(31)	(24)	(40)	(9)
Financial assets				
Gross settled derivatives	2,292	1,046	3,359	3,851
Outflow	(2,433)	(1,130)	(3,665)	(4,216)
Inflow				

**(ii) Management LTIP awards**

All Management LTIP awards outstanding at 30 June 2016 and 30 June 2015 vest only if performance conditions are met. Awards granted under the Management LTIP must be exercised within five years of the relevant award vesting date

The Company grants awards to selected employees under the Management LTIP Awards under this scheme mirror the LTIP, with the same performance conditions Awards exercised under the Management LTIP can only be satisfied by the issue of market-purchased shares

**(iii) LTIP awards**

All LTIP awards outstanding at 30 June 2016 and 30 June 2015 vest only if performance conditions are met. Awards granted under the LTIP must be exercised within five years of the relevant award vesting date

The Company operates the LTIP for Executive Directors and Senior Executives Awards under the scheme are granted in the form of a nil-priced option The awards vest in full or in part dependent on the satisfaction of specified performance targets For awards made in 2008 and 2009 (ie awards that vested in 2011) 30% of the award vested dependent on TSR performance over a three-year performance period relative to the constituents of the FTSE 100 at the time of grant and the remaining 70% vested dependent on performance against operational targets The TSR performance targets were not applicable to awards made between July 2010 and March 2012 but have been reintroduced for awards granted from July 2012 onwards

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

All Management Co-Investment LTIP awards outstanding at 30 June 2016 and 30 June 2015 vest only if performance conditions are met Awards granted under the Management Co-Investment LTIP must be exercised within five years of the relevant award vesting date

The Company grants awards to selected employees under the Management Co-Investment LTIP Awards under this scheme mirror the Co-Investment LTIP, with the same performance conditions

**(v) Co-Investment LTIP awards**

All Co-Investment LTIP awards outstanding at 30 June 2016 and 30 June 2015 vest only if performance conditions are met Awards granted under the Co-Investment LTIP must be exercised within five years of the relevant award vesting date

The Company operates the Co-Investment LTIP award for Executive Directors and Senior Executives Employees who participate in the plan are granted a conditional award of shares based on the amount they have invested in the Company's shares The investment will be matched up to a maximum of 1.5 shares for every share invested, subject to a three-year EPS performance condition

For the purposes of the disclosure below the Management LTIP LTIP Management Co-Investment LTIP and Co-Investment LTIP awards ('Senior Management Schemes') have been aggregated

The 'Executive Scheme' refers to options granted under the Executive Share Option Scheme No options have been granted under this scheme since 2004

The movement in share awards outstanding is summarised in the following table

	Executive Scheme		Sharesave Scheme		Senior management Schemes		Total	
	Number	Weighted average exercise price £	Number	Weighted average exercise price £	Number	Weighted average exercise price £	Number	Weighted average exercise price £
Outstanding at 1 July 2014	147,020	5.03	797,924	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	-	-	(113,187)	6.37	(112,451)	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
Granted during the year	-	-	3,773,962	8.17	12,030,266	0.00	15,804,228	1.95
Exercised during the year	-	-	(1,665,590)	5.95	(19,617,973)	0.00	(21,283,563)	0.47
Forfeited during the year	-	-	(1,255,954)	7.12	(2,366,526)	0.00	(3,622,480)	2.47
Expired during the year	-	-	(6,584)	5.08	-	-	(6,584)	5.08
Outstanding at 30 June 2016	-	-	9,212,906	7.20	29,840,597	0.00	39,053,503	1.70

The weighted average market price of the Group's shares at the date of exercise for share options exercised during the year was £11.35 (2015: £9.09). For those exercised under the Sharesave Scheme it was £10.77 (2015: £9.37) and for those exercised under the Senior Management Schemes it was £11.40 (2015: £8.84). In the prior year the weighted average market price of the Group's shares at the date of exercise for share options exercised under the Executive Scheme was £8.90.

The middle-market closing price of the Company's shares at 1 July 2016 was £8.73 (26 June 2015: £10.66).

**(i) Sharesave Scheme**

The weighted average fair value of equity-settled share awards granted during the year under the Sharesave Scheme as estimated at the date of grant, was £1.71 (2015: £1.46). This was calculated using the Black-Scholes share option pricing model.

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

	2016	2015
Share price	£10.39	£8.82
Exercise price	£8.17	£7.08
Expected volatility	18%	20%
Expected life	3.9 years	4.0 years
Expected dividends	3.3%	3.5%
Risk-free interest rate	1.1%	1.5%

**(ii) Senior Management Schemes**

The weighted average fair value of equity-settled share awards granted during the year under the Senior Management Schemes as estimated at the date of grant, was £9.85 (2015: £6.93). The fair value of awards with market-based performance conditions was calculated using a Monte-Carlo simulation model. Awards granted as nil-priced options were treated as the award of a free share. For all other awards, fair value was calculated using the Black-Scholes share option pricing model.

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

	2016	2015
Share price	£11.14	£8.85
Exercise price	£0.00	£0.00
Expected volatility	18%	19%
Expected life	2.1 years	3.0 years
Expected dividends	3.3%	3.5%
Risk-free interest rate	0.8%	1.4%

**26 Shareholders' equity**

	2016 £m	2015 £m
Share capital	860	860
Share premium	2,704	2,704
ESOP reserve	(125)	(125)
Hedging reserve	257	62
Available-for-sale reserve	-	(1)
Other reserves	302	120
Retained earnings	(551)	(455)
	<b>3,447</b>	<b>3,165</b>

The following table provides information about purchases of equity shares by the Company including purchases by the Group's ESOP during the fiscal year:

	Total number of shares purchased <sup>1</sup>	Average price paid per share £
July	-	-
August	16,747,644	11.56
September	656,618	10.47
October	-	-
November	-	-
December	-	-
January	-	-
February	-	-
March	-	-
April	-	-
May	-	-
June	-	-
<b>Total for the year ended 30 June 2016</b>	<b>17,404,262</b>	<b>11.52</b>

1. All share purchases were open market transactions and are included in the month of settlement.

## 27 Notes to the consolidated cash flow statement

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

	2016 £m	2015 £m
<b>Continuing operations</b>		
Profit before tax	752	1 516
Depreciation impairment and losses (profits) on disposal of property plant and equipment	356	297
Amortisation impairment and losses (profits) on disposal of intangible assets	637	469
Share-based payment expense	100	91
Net finance costs	227	275
Profit on disposal of available-for-sale investments	-	(492)
Profit on disposal of associate	-	(299)
Share of results of joint ventures and associates	(2)	(28)
	<b>2 070</b>	<b>1 829</b>
(Increase) decrease in trade and other receivables	(204)	1
(Increase) decrease in inventories	(2)	568
Increase (decrease) in trade and other payables	137	(367)
Increase in provisions	83	65
Increase (decrease) in derivative financial instruments	2	(16)
<b>Cash generated from operations</b>	<b>2,086</b>	<b>2 080</b>

## 28 Contracted commitments, contingencies and guarantees

### a) Future minimum expenditure contracted for but not recognised in the financial statements

	Less than 1 year £m	Between 1 and 5 years £m	After 5 years £m	Total at 30 June 2016 £m	Total at 30 June 2015 £m
Television programme rights	4 071	10 247	889	15 207	11 281
Set-top boxes and related equipment	470	-	-	470	305
Third-party payments <sup>1</sup>	279	373	33	685	622
Transponder capacity <sup>2</sup>	211	691	191	1 093	1,163
Property plant and equipment	50	1	-	51	122
Intangible assets <sup>3</sup>	58	67	-	125	151
Smartcards <sup>3</sup>	56	216	-	272	272
Other	584	698	148	1 430	1 199
	<b>5,779</b>	<b>12,293</b>	<b>1 261</b>	<b>19,333</b>	<b>15 115</b>

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

<sup>1</sup> The third-party payment commitments are in respect of distribution agreements for the television channels owned and broadcast by third parties, retailed by the Group to retail and commercial subscribers (Sky Distributed Channels)

<sup>2</sup> Transponder capacity commitments are in respect of capacity that the Group uses for digital transmissions to both retail subscribers and cable operators

<sup>3</sup> Commitments in relation to the provision of smartcards Smartcards under development are included within intangible assets The amounts included above are the expected ongoing smartcard costs based on forecast customer levels

### b) Contingencies and guarantees

Certain subsidiaries of the Company have agreed to provide additional funding to several of their investments in limited and unlimited companies and partnerships, in accordance with funding agreements Payment of this additional funding would be required if requested by the investees in accordance with the funding agreements The maximum potential amount of future payments which may be required to be made by the subsidiaries of the Company to their investments in both limited and unlimited companies and partnerships under the undertakings and additional funding agreements, is £44 million (2015 £8 million)

The Group has guarantees in place relating to the Group's borrowings see note 22 For an overview of the ongoing investigations and reviews of regulatory and competition matters involving the Group refer to the Regulatory matters section in the Strategic report

In respect of certain commitments disclosed above, the Company has provided back-to-back guarantees in favour of 21st Century Fox Inc in relation to UEFA Champions League and other programming obligations of Sky Italia Srl

**b) Joint ventures and associates**

Transactions between the Company and its subsidiaries which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its joint ventures and associates are disclosed below.

Transactions between the Company and its subsidiaries, joint ventures and associates are disclosed in the Company's separate financial statements.

	2016 £m	2015 £m
Supply of services by the Group	62	26
Purchases of goods or services by the Group	(52)	(55)
Amounts owed by joint ventures and associates to the Group	90	89
Amounts owed to joint ventures and associates by the Group	(14)	(16)

Services supplied are primarily the provision of transponder capacity marketing, airtime sales and support services. Purchases represent fees payable for channel carriage.

Amounts owed by joint ventures and associates include £77 million (2015: £70 million) relating to loan funding. This loan bears interest at a rate of 8.20% (2015: 8.20%). The maximum amount of loan funding outstanding in total from joint ventures and associates during the year was £77 million (2015: £70 million).

The Group took out a number of forward exchange contracts with counterparty banks during the year on behalf of the joint venture AETN UK. On the same dates as these forward contracts were entered into, the Group entered into equal and opposite contracts with AETN UK in respect of these forward contracts.

Consequently the Group was not exposed to any of the net gains or losses on these forward contracts. The face value of forward exchange contracts with AETN UK that had not matured as at 30 June 2016 was £34 million (2015: £12 million).

During the year US\$27 million (2015: nil) was received from the joint venture upon maturity of forward exchange contracts, and US\$19 million (2015: US\$2 million) was paid to the joint venture upon maturity of forward exchange contracts.

During the year £12 million (2015: £1 million) was received from the joint venture upon maturity of forward exchange contracts, and £26 million (2015: £3 million) was paid to the joint venture upon maturity of forward exchange contracts.

During the year £11 million (2015: £3 million) was received from the joint venture upon maturity of forward exchange contracts and nil (2015: nil) was paid to the joint venture upon maturity of forward exchange contracts.

At 30 June 2016 the Group had minimum expenditure commitments of £3 million (2015: £1 million) with its joint ventures and associates.

**c) Other transactions with related parties**

The Group has engaged in a number of transactions with companies of which some of the Company's Directors are also directors. These do not meet the definition of related-party transactions.

**d) Key management**

The Group has a related-party relationship with the Directors of the Company. At 30 June 2016 there were 11 (2015: 14) members of key management, all of whom were Directors of the Company. Key management compensation is disclosed in note 8b.

**Incorporated in the USA**

Corporation Trust Center 1209 Orange Street, Wilmington New Castle  
Delaware 19801  
BSkyB US Holdings, Inc.<sup>9</sup>

1675 S State Street, Suite B Dover DE 19901  
Callisto Media West LLC<sup>2,9</sup>  
Jupiter Entertainment LLC<sup>2,9</sup>  
Jupiter Entertainment Holdings LLC<sup>2,9,13</sup>  
Jupiter Entertainment North LLC<sup>2,9</sup>

4800 Old Kingston Pike, Suite 2200, Knoxville TN 37919  
PhotoOps LLC<sup>2,9</sup>

4318 Conifer Lane Juneau, AK 99801  
Wild West Alaska LLC<sup>2,9</sup>

1925 Century Park East, 22nd Floor Los Angeles CA 90067-90071  
Baking Show LLC<sup>2,6</sup>  
Love American Journeys, LLC<sup>2,6</sup>  
Love Baking, LLC<sup>2,6</sup>  
Love Productions USA Inc<sup>2,6</sup>  
Love Sewing, LLC<sup>2,6</sup>  
USA Love Development, LLC<sup>2,6</sup>

1801 Century Park East #2160, Los Angeles CA 90067  
ZJTV LLC<sup>2,14</sup>

**Incorporated in other overseas countries**

Austria - Schönbrunner Straße 297/2 / A-1120 Wien  
Sky Österreich Fernsehen GmbH  
Sky Österreich Verwaltung GmbH

Belgium - Boulevard Charlemagne 1 1041 Brussels  
Sky Channel SA

Hong Kong - Level 54 Hopewell Centre 183 Queen's Road East  
Sky Manufacturing Services Limited

Ireland - Fifth Floor, One Burlington Plaza Burlington Road, Dublin 4  
Sky Ireland Limited

Switzerland - Stockerhof Dreikonigstrasse 31A CH8002 Zurich  
Sky International AG

**Joint ventures and associates**

<b>Incorporated in the UK</b>	<b>Shareholding</b>
Grant Way Isleworth Middlesex TW7 5QD	
AETN UK	50 00%
Millbank Tower 21-24 Millbank, London SW1P 4QP	
Attheraces Holdings Limited <sup>4,9</sup>	48 35%
15 Bedford Street, London WC2E 9HE	
Bolt Pro Tem Limited <sup>6</sup>	33 33%
Brook Green House 4 Rowan Road, London W6 7DU	
Colossus Productions Limited <sup>6</sup>	20 00%

2nd Floor 27 Mortimer Street, London W1T 3JF  
DTV Services Limited<sup>7</sup>

20 00%

6th Floor One London Wall, London EC2Y 5EB  
Internet Matters Limited<sup>1,6</sup>

25 00%

43 Eagle Street, London WC1R 4AT  
Lovesport Productions Limited<sup>8</sup>

49 99%

17-19 Hawley Crescent Camden London NW1 8TT  
Nickelodeon UK Limited<sup>8</sup>  
Paramount UK Partnership<sup>2,8,10</sup>

40 00%

25 00%

St Albans House 57-59 Haymarket, London SW1Y 4QX  
Odeon and Sky Filmworks Limited<sup>9</sup>

50 00%

10-14 Accommodation Road, London NW11 8ED  
Sugar Films Limited

24 90%

15 Canada Square Canary Wharf, London E14 5GL  
Venture 2009 Limited

50 00%

**Incorporated in other overseas countries****Shareholding**

Channel Islands - 1 Waverley Place Union Street, St Helier, Jersey JE1 1SG  
Cyan Blue Topco Limited<sup>5</sup>

20 06%

Australia - 5 Thomas Holt Drive Macquarie Park, NSW 2113  
Australian News Channel Pty Limited

33 33%

USA - 874 Walker Rd Suite C Dover, DE 19904  
Talos Films LLC<sup>2,8</sup>

Membership interest  
(25 00%)

UAE - PO Box 77845 Abu Dhabi  
Sky News Arabia FZ-LLC

50 00%

- 1 This entity is limited by guarantee and so does not have issued share capital
- 2 These entities do not have issued share capital and Sky's investment instead comprises of a membership partnership or quota interest according to the legal form of the company
- 3 This entity has also issued preference shares
- 4 This entity has also issued recoupment shares
- 5 This entity has also issued contingent value shares
- 6 These entities have an accounting reference date of 31 March
- 7 This entity has an accounting reference date of 31 May
- 8 These entities have an accounting reference date of 30 September
- 9 These entities have an accounting reference date of 31 December
- 10 The Paramount UK Partnership is a joint venture of the Group and is included within the consolidated accounts in accordance with Note 1(c)(ii). Consequently the Paramount UK Partnership has taken advantage of the exemption within the Partnerships (Accounts) Regulations 2008 (regulation 7) from filing annual financial statements
- 11 Sky owns 70 40% of the issued share capital of this entity
- 12 Sky owns 85 00% of the issued share capital of this entity
- 13 Sky owns 60 00% of the issued share capital of this entity
- 14 Sky owns 51 00% of the issued share capital of this entity
- 15 Sky owns 51 50% of the issued share capital of this entity

The following companies are exempt from the requirements relating to the audit of individual accounts for the year/period ended 30 June 2016 by virtue of section 479A of the Companies Act 2006: Kidsprog Limited (02767224) Parthenon Media Group Limited (06944197) S A TV Publishing Limited (01085975) Sky Finance Europe Limited (09446689) Sky IP International Limited (07245844) Sky Operational Finance Limited (02906994) and Sky Television Limited (01518707).

**Company Balance Sheet**  
as at 30 June 2016

	Notes	2016 £m	2015 £m
<b>Non-current assets</b>			
Investments in subsidiaries	E	9 523	9 517
Other receivables	G	5	6
Derivative financial assets	J	799	358
Deferred tax assets	F	-	1
		<b>10,327</b>	<b>9,882</b>
<b>Current assets</b>			
Other receivables	G	9 020	7 859
Cash and cash equivalents		-	-
Derivative financial assets	J	-	55
		<b>9,020</b>	<b>7,914</b>
<b>Total assets</b>		<b>19,347</b>	<b>17,796</b>
<b>Current liabilities</b>			
Other payables	I	3 431	3 479
Derivative financial liabilities	J	-	55
		<b>3,431</b>	<b>3,534</b>
<b>Non-current liabilities</b>			
Borrowings	H	8 182	6 723
Derivative financial liabilities	J	133	74
		<b>8,315</b>	<b>6,797</b>
<b>Total liabilities</b>		<b>11 746</b>	<b>10 331</b>
Share capital	L	860	860
Share premium	L	2,704	2,704
Reserves		4,037	3 901
<b>Total equity attributable to equity shareholders</b>		<b>7,601</b>	<b>7,465</b>
<b>Total liabilities and shareholders' equity</b>		<b>19 347</b>	<b>17,796</b>

The accompanying notes are an integral part of this balance sheet

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

Jeremy Darroch  
Group Chief Executive Officer

Andrew Griffith  
Group Chief Operating Officer and Chief Financial Officer

Financial statements

**B Investment income and finance costs**

	2016 £m	2015 £m
Investment income		
Investment income from subsidiaries	172	130
Interest on other loans and receivables with related parties	2	1
	<b>174</b>	<b>131</b>
	2016 £m	2015 £m
Finance costs		
- Interest payable and similar charges	(3)	(33)
Facility related costs	(191)	(168)
Guaranteed Notes (see note H)	(194)	(201)
- Other finance income (expense)		
Remeasurement of borrowings and borrowings-related derivative financial instruments (not qualifying for hedge accounting)	(723)	462
Foreign exchange gain (loss) arising on loan with subsidiaries	735	(462)
Gain (loss) arising on derivatives in a designated fair value hedge accounting relationship	14	(19)
(Loss) gain arising on adjustment for hedged item in a designated fair value hedge accounting relationship	(15)	19
	11	-
	<b>(183)</b>	<b>(201)</b>

In the prior year finance costs included £50 million incurred in connection with £6.6 billion of firm underwritten debt facilities and other associated transaction costs relating to the purchase of Sky Deutschland and Sky Italia. These facilities, including the previous RCF, were repaid or cancelled in the prior year with the exception of the £1 billion revolving credit facility (RCF) which remains undrawn.

**C Profit before taxation****Employee benefits**

The Company had no employees (2015: none) during the year.

**Key management compensation**

Amounts paid to the Directors of the Company are disclosed in the Report on Directors' remuneration on pages 49 to 63.

**D Taxation****i) Taxation recognised in the income statement**

	2016 £m	2015 £m
Current tax expense		
Current year	30	22
<b>Total current tax charge</b>	<b>30</b>	<b>22</b>
Deferred tax expense		
Origination and reversal of temporary differences	1	2
<b>Total deferred tax charge</b>	<b>1</b>	<b>2</b>
<b>Taxation</b>	<b>31</b>	<b>24</b>

**ii) Deferred tax recognised directly in equity**

	2016 £m	2015 £m
Deferred tax credit on hedging activities	-	(7)

**iii) Reconciliation of effective tax rate**

The tax expense for the year is lower (2015: lower) than the expense that would have been charged using the blended rate of corporation tax in the UK (20.0%) applied to profit before tax. The applicable enacted or substantively enacted effective rate of UK corporation tax for the year was 20.0% (2015: 20.75%). The differences are explained below.

	2016 £m	2015 £m
Profit before tax	830	572
Profit before tax multiplied by blended rate of corporation tax in the UK of 20.0% (2015: 20.75%)	166	119
Effects of:		
Non-taxable income	(135)	(106)
Non-deductible expenditure	-	11
<b>Taxation</b>	<b>31</b>	<b>24</b>

All taxation relates to UK corporation tax.



On 15 February 2008 the Company issued US\$750 million Guaranteed Notes with a coupon rate of 6.100% and loaned the proceeds to Sky UK Limited. Sky UK Limited pays the same annual effective interest rate to the Company.

All other amounts receivable from subsidiaries are non-interest bearing and are also repayable on demand.

The Directors consider that the carrying amount of other receivables approximates their fair values.

The Company's credit risk is primarily attributable to its other receivables. The majority of its other receivables balance is due from Sky Operational Finance Limited and Sky UK Limited. The risk of these entities defaulting on amounts owed is considered low due to Sky Operational Finance Limited being a conduit to pass through intercompany financing and due to Sky UK Limited's successful operation of pay television broadcasting and home communications services in the UK and Ireland.

## H Borrowings

	2016 £m	2015 £m
Non-current borrowings		
US\$750 million of 6.100% Guaranteed Notes repayable in February 2018	559	474
US\$582.8 million of 9.500% Guaranteed Notes repayable in November 2018	435	372
US\$750 million of 2.625% Guaranteed Notes repayable in September 2019	576	477
€600 million of Guaranteed Floating Rate Notes repayable in April 2020	499	425
£450 million of 2.875% Guaranteed Notes repayable in November 2020	470	445
€1,500 million of 1.500% Guaranteed Notes repayable in September 2021	1,243	1,058
US\$800 million of 3.125% Guaranteed Notes repayable in November 2022	597	504
€850 million of 1.875% Guaranteed Notes repayable in November 2023	705	602
US\$1,250 million of 3.750% Guaranteed Notes repayable in September 2024	933	787
€500 million of 2.250% Guaranteed Notes repayable in November 2025	414	-
€1,000 million of 2.500% Guaranteed Notes repayable in September 2026	828	705
£300 million of 6.000% Guaranteed Notes repayable in May 2027	296	296
£300 million of 4.000% Guaranteed Notes repayable in November 2029	297	297
€400 million of 2.750% Guaranteed Notes repayable in November 2029	330	281
	<b>8,182</b>	<b>6,723</b>

At 30 June 2016 the Company had in issue the following Guaranteed Notes:

	Hedged Value £m	Interest Rate Hedging		Hedged Interest Rates	
		Fixed £m	Floating £m	Fixed	Floating
US\$750 million of 6.100% Guaranteed Notes repayable in February 2018	387	290	97	6.829%	6m LIBOR +1.892%
US\$582.8 million of 9.500% Guaranteed Notes repayable in November 2018	389	260	129	7.091%	6m LIBOR +5.542%
£450 million of 2.875% Guaranteed Notes repayable in November 2020	450	-	450	-	3m LIBOR +1.230%
US\$800 million of 3.125% Guaranteed Notes repayable in November 2022	503	503	-	3.226%	-
€500 million of 2.250% Guaranteed Notes repayable in November 2025	356	356	-	3.721%	-
£300 million of 6.000% Guaranteed Notes repayable in May 2027	300	300	-	6.000%	-
£300 million of 4.000% Guaranteed Notes repayable in November 2029	200	200	-	4.000%	-
	<b>2,585</b>	<b>1,909</b>	<b>676</b>		

	Hedged Value £m	Interest Rate Hedging		Hedged Interest Rates	
		Fixed £m	Floating £m	Fixed	Floating
US\$750 million of 2.625% Guaranteed Notes repayable in September 2019	581	-	581	-	3m EURIBOR +0.656%
€600 million of Guaranteed Floating Rate Notes repayable in April 2020	600	-	600	-	3m EURIBOR +0.750%
€1,500 million of 1.500% Guaranteed Notes repayable in September 2021	1,500	1,500	-	1.500%	-
€850 million of 1.875% Guaranteed Notes repayable in November 2023	850	850	-	1.875%	-
US\$1,250 million of 3.750% Guaranteed Notes repayable in September 2024	969	969	-	2.187%	-
€1,000 million of 2.500% Guaranteed Notes repayable in September 2026	1,000	1,000	-	2.500%	-
£300 million of 4.000% Guaranteed Notes repayable in November 2029	126	126	-	2.943%	-
€400 million of 2.750% Guaranteed Notes repayable in November 2029	400	400	-	2.750%	-
	<b>6,026</b>	<b>4,845</b>	<b>1,181</b>		

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Set out below are the derivative financial instruments entered into by the Company to manage its interest rate and foreign exchange risk.

	2016				2015			
	Asset		Liability		Asset		Liability	
	Fair Value £m	Notional £m	Fair Value £m	Notional £m	Fair Value £m	Notional £m	Fair Value £m	Notional £m
Fair value hedges								
Interest rate swaps	74	1029	-	-	48	939	-	-
Cross-currency swaps	120	466	-	-	19	466	-	-
Cash flow hedges								
Cross-currency swaps	445	1924	-	-	88	1065	(12)	503
Derivatives not in a formal hedge relationship								
Interest rate swaps	5	50	(12)	310	14	336	(14)	596
Cross-currency swaps	155	629	(121)	1483	244	2065	(103)	1017
<b>Total</b>	<b>799</b>	<b>4 098</b>	<b>(133)</b>	<b>1 793</b>	<b>413</b>	<b>4 871</b>	<b>(129)</b>	<b>2,116</b>

Note 23 provides further details of the Group's derivative and other financial instruments

The maturity of the derivative financial instruments is shown below

	2016		2015	
	Asset £m	Liability £m	Asset £m	Liability £m
In one year or less	-	-	55	(55)
Between one and two years	198	(5)	-	-
Between two and five years	233	(30)	211	(34)
In more than five years	368	(98)	147	(40)
<b>Total</b>	<b>799</b>	<b>(133)</b>	<b>413</b>	<b>(129)</b>

## K Financial risk management

### Interest rate and foreign exchange risk management

The Company manages its exposure to interest rates and foreign exchange movements which arise from the Company's sources of finance by selectively entering into derivative financial instruments to manage its exposure. The Company has also entered into derivative contracts on behalf of its subsidiary Sky Group Finance plc, and has back-to-back intercompany contracts.

### Foreign exchange risk

The following analysis details the Company's sensitivity to movements in pounds sterling against all currencies in which it has significant transactions. The sensitivity analysis includes only outstanding foreign currency denominated financial instruments and adjusts their translation at the period end for a 25% change in foreign currency rates.

A 25% strengthening in pounds sterling against the US dollar would have an adverse impact on profit of £10 million (2015: adverse impact of £13 million) relating to non-cash movements in the valuation of derivatives. The same strengthening would have an adverse impact on other equity of £68 million (2015: adverse impact of £39 million).

A 25% weakening in pounds sterling against the US dollar would have a beneficial impact on profit of £17 million (2015: beneficial impact of £21 million) relating to non-cash movements in the valuation of derivatives. The same weakening would have a beneficial impact on other equity of £113 million (2015: beneficial impact of £65 million).

A 25% strengthening in pounds sterling against the euro would have a beneficial impact on profit by £38 million (2015: beneficial impact of £17 million) relating to non-cash movements in the valuations of derivatives. The same strengthening would have an adverse impact on other equity of £16 million (2015: nil).

A 25% weakening in pounds sterling against the euro would have an adverse impact on profit of £63 million (2015: adverse impact of £28 million) relating to non-cash movements in the valuation of derivatives. The same weakening would have a beneficial impact on other equity of £27 million (2015: nil).

**L Notes to the Company statement of changes in equity**

For details of share capital, share premium the special reserve the capital redemption reserve and the hedging reserve see notes 25 and 26

For details of dividends, see note 11

**Capital reserve**

This reserve arose from the surplus on the transfer of trade and assets to a subsidiary undertaking

**M Reconciliation of profit before tax to cash generated from operations**

	2016 £m	2015 £m
<b>Profit before tax</b>	<b>830</b>	<b>572</b>
Dividend income	(671)	(510)
Net finance costs	9	70
Increase in other receivables	(168)	(132)
<b>Cash generated from operations</b>	<b>-</b>	<b>-</b>

**N Contingent liabilities and guarantees**

The Company and certain of its subsidiaries have undertaken, in the normal course of business to provide support to several of the Group's investments in both limited and unlimited companies and partnerships to meet their liabilities as they fall due. Several of these undertakings contain maximum financial limits. These undertakings have been given for at least one year from the date of the signing of the UK statutory accounts of the related entity. A payment under these undertakings would be required in the event of an investment being unable to pay its liabilities.

The Company has provided parent company guarantees in respect of the various contracts entered into with the Premier League by Sky UK Limited and Sky Italia Srl covering the 2016/17 to 2018/19 football seasons. In each case the guarantee covers all payment obligations now or in the future due owing or incurred by Sky UK Limited under the contracts and all liabilities now or in the future arising or incurred under the indemnity given to the Premier League by Sky UK Limited and Sky Italia Srl under the contracts.

The Company has provided a parent company guarantee to UEFA in respect of a media rights agreement entered into by Sky Italia Srl in relation to the UEFA Euro 2016 football championship. The guarantee covers all payment obligations by Sky Italia Srl under the agreement.

The Company has provided a parent company guarantee to Warburg-HiH Invest Real Estate GmbH in respect of a rental agreement entered into by Sky Deutschland GmbH. The guarantee covers all payment obligations by Sky Deutschland GmbH under the agreement.

The Company has provided a parent company guarantee in respect of the contract entered into with Sky UK Limited and Stanhope plc in relation to the construction of a new corporate headquarters at the Osterley campus. The guarantee covers all performance obligations and payment obligations imposed on Sky UK Limited under that contract.

The Company has provided a back-to-back guarantee in favour of 21st Century Fox, Inc. of up to half of the annual payment obligations of Sky Deutschland Fernsehen GmbH & Co. KG under the 2013/17 Bundesliga agreement. It has also provided back-to-back guarantees in favour of 21st Century Fox, Inc. in relation to UEFA Champions League and other programming obligations of Sky Italia Srl.

The Company has provided a parent company guarantee to SGH Stream Sub Inc. in respect of the obligations of Sky Italian Holdings S.p.A. under the Sky Italia Srl Sale and Purchase Agreement dated 25 July 2014. The Company has also provided a parent company guarantee to 21st Century Fox Adelaide Holdings BV in respect of the obligations of Sky German Holdings GmbH under the Sky Deutschland AG Sale and Purchase Agreement dated 25 July 2014.

The Company has guarantees in place relating to the Group's borrowings see note 22 and in relation to audit exemptions see note 31.

**O Transactions with related parties and major shareholders**

	2016 £m	2015 £m
Supply of services to subsidiaries	219	229
Interest received from funding to subsidiaries	172	130
Interest on other loans and receivables with related parties	2	1
Amounts owed by subsidiaries	9 018	7 859
<b>Amounts owed to subsidiaries</b>	<b>(3 325)</b>	<b>(3 394)</b>

The Company has related-party transactions with its subsidiaries by virtue of its status as parent company of the Group. In particular it is normal treasury practice for the Company to lend and borrow cash to and from its subsidiaries as required. Under this policy Sky UK Limited settled liabilities of £106 million and £108 million (2015: £130 million and £17 million) on behalf of the Company during the year. Interest is earned on certain loans to subsidiaries.

The Company recognised £219 million (2015: £229 million) for licensing the Sky brand name to subsidiaries. The Company recognised dividends during the year from subsidiaries totalling £671 million (2015: £510 million).

The Group's related-party transactions are disclosed in note 30.

	30 June 2016 (£000)	30 June 2015 (£000)	30 June 2014 (£000)	30 June 2013 (£000)	30 June 2012 (£000)
<b>Statistics</b>					
<b>Products</b>					
UK & Ireland	40 373	38 036	34,775	31 634	28 365
Germany & Austria	8 042	7 133	-	-	-
Italy	8,640	8 614	-	-	-
<b>Total paid-for subscription products</b>	<b>57,055</b>	<b>53 783</b>	<b>34 775</b>	<b>31,634</b>	<b>28,365</b>
<b>Customers</b>					
UK & Ireland	12 446	12 001	11 495	11,153	10,606
Germany & Austria	4 626	4 280	-	-	-
Italy	4,742	4 725	-	-	-
<b>Retail customers</b>	<b>21 814</b>	<b>21 006</b>	<b>11 495</b>	<b>11 153</b>	<b>10,606</b>
UK & Ireland	3 923	4 028	4 041	3 677	3,672
Germany & Austria	144	146	-	-	-
Italy	-	-	-	-	-
<b>Wholesale customers<sup>3</sup></b>	<b>4 067</b>	<b>4 174</b>	<b>4 041</b>	<b>3 677</b>	<b>3 672</b>
<b>Total customers</b>	<b>25,881</b>	<b>25,180</b>	<b>15,536</b>	<b>14,830</b>	<b>14 278</b>
<b>Churn</b>					
UK & Ireland	11.2%	9.8%	10.9%	10.7%	10.2%
Germany & Austria	9.9%	8.6%	-	-	-
Italy	11.1%	9.6%	-	-	-

1 Included within revenue for the year ended 30 June 2014 is a £15 million credit received following the termination of an escrow agreement with a current wholesale operator

2 Included within operating expense for the year ended 30 June 2016 are costs of £4 million in relation to advisory and transaction fees incurred on the purchase of Sky Deutschland and Sky Italia costs of £142 million relating to corporate restructuring and efficiency programmes, costs of £84 million relating to the integration of Sky Deutschland and Sky Italia in the enlarged Group costs of £343 million relating to the amortisation of acquired intangibles and costs of £8 million relating to the remeasurement of derivative financial instruments not qualifying for hedge accounting and hedge ineffectiveness

Included within operating expense for the year ended 30 June 2015 are costs of £50 million in relation to advisory and transaction fees incurred on the purchase of Sky Deutschland and Sky Italia costs of £105 million relating to corporate restructuring and efficiency programmes costs of £10 million relating to the integration of Sky Deutschland and Sky Italia in the enlarged Group and costs of £231 million relating to the amortisation of acquired intangibles

Included within operating expense for the year ended 30 June 2014 are costs of £49 million relating to the integration of the O2 consumer broadband and fixed line telephony business costs of £40 million relating to a corporate restructuring and efficiency programme £2 million as a result of the termination of an escrow agreement with a current wholesale operator and £23 million relating to the amortisation of acquired intangibles

Included within operating expense for the year ended 30 June 2013 is a credit of £32 million in relation to a credit note received following an Ofcom determination a credit of £33 million relating to the final settlement of disputes with a former manufacturer of set-top boxes (net of associated costs) costs of £31 million relating to one-off upgrade of set-top boxes, costs of £33 million relating to a corporate efficiency programme and costs of £15 million relating to the acquisition and integration of the O2 consumer broadband and fixed-line telephony business Also included are costs of £25 million relating to the programme to offer wireless connectors to selected Sky Movies customers

Included within operating expense for the year ended 30 June 2012 is a credit of £31 million in relation to the News Corporation (subsequently renamed 21st Century Fox, Inc.) proposal in 2011 consisting of costs incurred offset by the receipt of the break fee Also included are restructuring costs of £11 million which comprise severance payments in relation to approximately 35 senior roles as part of a restructuring initiative to improve operating efficiency

3 Wholesale customers are customers who take a package, from one of Sky's Wholesale Partners, in which they receive at least one paid-for Sky channel

## Non-GAAP measures

### Unaudited supplemental information

#### Consolidated Income Statement – reconciliation of statutory and adjusted numbers

	Notes	2016		
		Statutory £m	Adjusting Items £m	Adjusted £m
Revenue				
Subscription		10185	-	10185
Transactional		197	-	197
Programme and Channel Sales		642	-	642
Advertising		778	-	778
Other		163	-	163
		11965	-	11965
Operating expense				
Programming	A	(5 217)	54	(5163)
Direct network costs		(939)	-	(939)
Sales, general and administration	B	(4 832)	527	(4 305)
		(10 988)	581	(10 407)
EBITDA		1,970	208	2,178
Operating profit		977	581	1558
Share of results of joint ventures and associates	C	2	7	9
Investment income		17	-	17
Finance costs	D	(244)	6	(238)
Profit before tax		752	594	1346
Taxation	E	(89)	(180)	(269)
Profit for the year from continuing operations		663	414	1077
Loss attributable to non-controlling interests		3	(3)	-
Profit from continuing operations attributable to equity shareholders of the parent company		666	411	1077
Earnings per share (basic)		39.0p	24.1p	63.1p

Notes: explanation of adjusting items for the year ended 30 June 2016

- A Costs of £28 million relating to corporate restructuring and efficiency programmes: costs of £18 million relating to the integration of Sky Deutschland and Sky Italia in the enlarged Group and costs of £8 million relating to the remeasurement of all derivative financial instruments not qualifying for hedge accounting and hedge ineffectiveness
- B Advisory and transaction fees of £4 million incurred on the purchase of Sky Deutschland and Sky Italia: costs of £114 million relating to corporate restructuring and efficiency programmes (including depreciation and amortisation of £11 million); costs of £66 million relating to the integration of Sky Deutschland and Sky Italia in the enlarged Group (including depreciation and amortisation of £19 million) and amortisation of acquired intangible assets of £343 million
- C Amortisation of acquired intangible assets of £7 million
- D Finance costs of £6 million relating to the remeasurement of all derivative financial instruments not qualifying for hedge accounting and hedge ineffectiveness
- E Tax effect of adjusting items

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## Reconciliation of cash generated from operations to adjusted free cash flow

for the year ended 30 June 2016

	Note	2016 £m	2015 £m
Cash generated from continuing operations	27	2,086	2,080
Interest received		10	9
Taxation paid		(189)	(219)
Dividends received from joint ventures and associates		20	25
Funding to joint ventures and associates		(8)	(10)
Purchase of property plant and equipment		(542)	(385)
Purchase of intangible assets		(432)	(357)
Interest paid		(231)	(246)
<b>Free cash flow</b>		<b>714</b>	<b>897</b>
Cash paid relating to the integration of Sky Deutschland and Sky Italia in the enlarged Group		34	8
Cash paid relating to corporate restructuring and efficiency programmes		22	34
Cash paid under provisions recognised in prior periods		16	5
Cash paid relating to advisory and transaction fees and finance costs incurred on the purchase of Sky Deutschland and Sky Italia		-	110
Cash paid relating to the integration of the O2 consumer broadband and fixed-line telephony business		-	3
Payment following termination of an escrow agreement with a current wholesale operator		-	3
<b>Adjusted free cash flow</b>		<b>786</b>	<b>1,060</b>

Where appropriate amounts above are shown net of applicable corporation tax

## Dividend Reinvestment Plan

The Company operates a Dividend Reinvestment Plan (DRIP) which enables shareholders to buy the Company's shares on the London stock market with their cash dividend. Further information about the DRIP is available from Equiniti.

## American Depositary Receipts ('ADR')

The Company's ADR programme trades on the over-the-counter (OTC) market in the US. More information can be obtained from the Company's corporate website at [sky.com/corporate](http://sky.com/corporate).

All enquiries relating to the Company's ADRs should be addressed to:

BNY Mellon Shareowner Services  
PO Box 30170  
College Station, TX 77842-3170  
US residents: (888) 269 2377  
If resident outside the US: +1 201 680 6825  
email: [shrrelations@cpushareownerservices.com](mailto:shrrelations@cpushareownerservices.com)

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## Company registration number

Registered in England and Wales under number 2247735

## Auditor

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