

Annual report and financial statements
For the year ended 30 June 2018

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Sky plc

Annual Report 2018

Registered in England
No. 2247735

Bringing better content and innovation to all of our customers, better connecting them to more of what they love.

At Sky we believe in providing our customers with the very best TV experience. That means offering them the best entertainment from major live sporting events, gripping drama, great US and Sky original programmes, and blockbuster movies across a range of brilliant platforms and services. We also continually improve our product set across TV, home communications, and mobile, attracting more customers to Sky.

We know that everyone deserves exceptional service and we strive to improve what we do every day for our customers. At the same time we believe in being a fair and responsible business, doing the right thing for our people, communities, customers and shareholders.

Sky Q

Now launched across all
our main territories

Patrick Melrose

Nominated for five
Emmy® Awards

Digital service

My Sky app downloaded
11 million times

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

To find out about our products and
services go to sky.com

For more about our wider contribution go to
skygroup.sky/corporate/bigger-picture

Our journey

Since our launch in 1989 we've grown from being the UK's first satellite TV service to Europe's leading direct-to-consumer media and entertainment company, serving 23 million customers with multiple products across seven markets. Here are some of our highlights:

Revolutionising the way people watch TV

Sky Sports starts broadcasting

Putting customers in control

Sky+ introduced, letting customers record, pause and instantly rewind live TV

Launched as the **UK's first satellite TV service** with four channels including **Sky News**, Europe's first 24 hour news channel

sky digital launched, allowing customers to watch over 140 live TV channels

Establishing our presence across Europe

Streaming service brought to market

Acquisition of **Sky Italia** and **Sky Deutschland**

Broadened our content strategy

Pay-per-view movie service **Sky Store** is introduced launches

Building the next generation of products

Sky Q – Europe's best home entertainment service – brought to market in the UK

NOW TV rolls out in Italy

Fortitude becomes our first original programme to launch across the Group

Sky Kids app created to give a bespoke and safe destination for kids content

NOW TV adds **unlimited NOW Broadband**, the UK's first contract-free broadband service

Broadening our product portfolio to more customers

Sky Mobile TV, our first streaming service, launched

Sky+ HD launched with 10 channels in high definition

Launch of **Sky Talk**

Expanded into home communications with **Sky Broadband**

Developing our streaming services

Sky Go launched, letting customers watch live and on demand TV on mobile devices

Reached our ambitious **10 million customer** target

Creation of becoming the home of HBO

Introduction of the **Sky+ app**, letting customers record shows whilst out of the home

Serving a bigger market with our best products

Germany's streaming service introduced

The start of **Sky VR**, a dedicated virtual reality app

Our services expanded into **Spain and Switzerland**

Sky launched over **DTT** in Italy

app to be added to Sky Q, starting in the UK and Ireland

Sky+ Pro launches with Ultra-HD in Germany

Launch of **Sky Mobile** – the UK's most flexible mobile phone service

Sky Q starts rolling out across Europe

joins the Sky Q platform

Sky over Fibre becomes available in Italy

Chairman's statement

James Murdoch
Chairman

At a time of significant change in our industry, Sky has continued to strengthen its position as Europe's leading direct-to-consumer media and entertainment business. We have more ways than ever before to reach customers and let them access their favourite content in whichever way they choose. At the same time, we're using our European footprint to make a significant positive impact in the communities in which we operate.

We have once again delivered on our strategy to give customers the best and broadest range of content, market-leading product innovation and excellent front-line customer service, while at the same time constantly improving our operational capability and efficiency.

Additionally, we have continued to open up new opportunities for growth by capitalising on the strength of the Sky brand, developing new services and entering additional geographic markets. This year, we've taken Sky Q, Europe's best home and entertainment service, into our main territories, have made the Sky service available without a satellite dish for the first time and have launched pay-as-you-go streaming services in both Spain and Switzerland.

The success of our approach is demonstrated in the strength of our financial performance, with strong revenue and profit growth delivered again this year. Our 23 million households are now taking over 63 million products from us and we reach over 120 million people across Europe.

As we continue to generate strong returns, we are able to make an ever-growing contribution to the countries and communities in which we operate. This year we collected and paid £1.8 billion in total taxes. In total, we generate around £4.8 billion in tax revenues, and proudly employ over 31,000 people while supporting a further 216,800 jobs throughout Europe (Oxford Economics 2017).

Our Sky Ocean Rescue campaign, which launched over a year ago, has contributed to making the matter of ocean health and plastic pollution an issue of national importance. Sky's efforts in raising awareness and taking action have been recognised by world leaders and policy makers and we are using our skills and experience to attract high-profile partners to this important cause. Additionally, in March we launched Sky Ocean Ventures, our impact investment vehicle, to accelerate breakthrough and scalable ideas to help solve the ocean plastic crisis and encourage responsible consumption.

I'm proud to announce that we have exceeded our target of reducing our carbon emissions intensity by 50% two years early and, together with our pledge to remove all single-use plastics from our operations by 2020, we are proving our commitment to building a better and more sustainable business.

As you know, Sky remains in an extended offer period, having received firm offers from 21st Century Fox and Comcast to acquire the business. Sky's Independent Directors led by our Deputy Chairman, Martin Gilbert, have conducted the offer process. Sky shareholders, who will have the final say, continue to be kept fully informed.

Finally, I would like to take this opportunity to thank all my colleagues for delivering another strong performance and remaining focused throughout the year. The talent of our people means we continue to find more ways to improve the customer offer and drive the growth of this great business.

James Murdoch, Chairman

Group Chief Executive's statement

Jeremy Darroch
Group Chief Executive

The global media and entertainment industry is changing at pace. Consumers' viewing behaviours are evolving and the rate of innovation and technological change is accelerating. Competition continues to intensify, especially for direct relationships with consumers, and with this the quality and quantity of what's on screen is increasing. In a world of almost unlimited choice, consumers are becoming more discerning, seeking out better curation and quality from brands they trust, while spending more time than ever watching video content.

As the original direct-to-consumer media and entertainment business, Sky is uniquely well positioned to succeed in today's environment. We've remained flexible in our approach, building out our portfolio of products and services in order to bring better content and innovation to all our customers, connecting them in ways that most suit their needs. We package together programmes from the world's best partners with our very own home-grown content. We have a strong brand that now has significant reach across multiple and growing territories. Our people are highly engaged and committed and our infrastructure is robust, enabling us to deliver the very best front-line service to customers.

We've delivered an excellent set of results and have put in place the building blocks for future growth

Our approach is working. Revenue for the period is up 5% to £13.6 billion, with growth in each of our territories. EBITDA from our Established businesses is up 11% to £2.5 billion¹, and up 9% when taking into account the investments we've made this year in Sky Mobile and our expansion into Spain.

This strong financial performance has been delivered against the backdrop of a challenging consumer environment, demonstrating the continual improvement in our broad set of products and services, and our focus on providing value for money to all our customers. We now have a customer base of over 23 million households across Europe who are taking over 63 million Sky products. This year alone, we sold a further 3.1 million products, with particularly strong take-up of Sky Q multiscreen, Ultra HD and Sky Mobile.

Importantly, this year has been about establishing and opening up new opportunities for growth. In the UK, we've agreed a cross-supply deal with BT and renewed our Premier League rights, meaning customers will have the best choice of sport through one Sky TV subscription. In Italy, we have transformed the business into a major multi-product, multi-platform company. We reached landmark agreements with Mediaset and Open Fiber that will allow us to expand our product reach to more customers, plus launch a triple-play offering as well as developing our Sky over IP service. In Germany and Austria, we significantly upgraded all of our products and services, and launched Sky Q to transform the viewing experience. Additionally, we agreed European partnerships with Spotify and Netflix, which will further enhance the whole home entertainment experience on the Sky Q platform and provide our customers with even greater value from their subscription.

More of the very best content available

All of this has been achieved at the same time as delivering for customers today. We offer our customers the best and broadest range of content and ensure we have something for every home and everyone in that home. We know our customers want exclusive, high-quality local storytelling that is differentiated from free-to-air and OTT offerings, which is why we have significantly increased our investment in Sky original productions in each of our markets. Over the course of calendar year 2018 we're showing an average of one Sky original a week, including at least 10 big dramas. Alongside ramping up the quantity, we're focused on step changing the quality and scale of what we produce. We're attracting the very best writers, directors and acting talent in each of our markets, including global stars such as Benedict Cumberbatch, who starred in the critically acclaimed Patrick Melrose, which has now been nominated for five Emmy® Awards; Lars Eidinger, our award-winning Babylon Berlin actor; Alessandro Cattelan, our X Factor host and one of Italy's most talented showmen; and writer of Britannia, Jez Butterworth. This in turn is allowing us to increase the international distribution of our programmes, recoup a significant percentage of our costs and thereby enable further investment in the overall customer experience.

Alongside our great entertainment portfolio, our customers also benefit from a sports offering that is second to none. This year, we've built on important partnerships and secured rights that will enable us to reach even more sports fans.

¹ This is an adjusted measure and a reconciliation between statutory and adjusted measures can be found on page 135

Group Chief Executive's statement continued

We successfully renewed our Premier League rights in the UK at a lower overall cost versus our contract today, and in Italy secured a significant increase in the number of exclusive Serie A games at a lower price per exclusive game than the previous seasons. For the first time in Germany and Austria, we will take UEFA Champions League exclusive to pay TV from next season, plus air the Austrian Bundesliga.

In news, the quality of original journalism from Sky News was once again recognised in 2018 with the channel taking home two RTS Awards, including News Channel of the Year, and a BAFTA for its coverage of the Rohingya humanitarian crisis. The channel continued to champion important causes, leading the way in the gender equality debate with its 100 Women series, and pushing technological boundaries, becoming the only broadcaster to show the Royal Wedding in Ultra HD.

In Italy, Sky TG24 has completed the transfer of its operations to our Milan headquarters and opened a new editorial office in Rome. The new premises have been equipped with the latest technology to ensure the highest-quality news output.

Offering customers the best ways to watch

Along with our curation of the best range of content, we have further developed and improved the customer viewing experience in each of our territories, making it easier for new customers to watch on a platform that best works for them and giving them the flexibility to join at a price point to suit their needs. We remain agnostic to how customers choose to watch their favourite programmes, be it via satellite, through our on demand services, on our NOW TV and Sky Ticket streaming platforms, or across DTT. In fact, over 70% of our customers now have the ability to access our content through our hybrid model of both satellite and streaming delivery.

Our investment in Sky Q is paying off. Sky Q customers are watching more – on average, an hour more of TV a day – transacting more, and are more loyal to Sky, demonstrating the strength of the Sky Q platform as Europe's leading home entertainment service. We are therefore committed to getting Sky Q into more homes to the benefit of both our customers and our business. Following its launch in Italy in November and

in Germany and Austria in May, Sky Q is now in over 3.6 million homes across Europe and we'll continue to push its penetration in the year ahead.

Sky Q

In order to help us achieve this, we're going to make the platform even better. In February, we announced the next stage in Sky Q's development with a new and improved user interface along with enhanced personalisation, allowing customers to find their favourite programmes more easily. In the year ahead, we're rolling out new Kids and Sports modes, plus extending our voice functionality.

The launch of Sky Q in Germany and Austria was just one part of our comprehensive upgrade to our service in these markets. In order to realise the full growth potential in these territories over the longer term, we used insights and designs from across the Group to transform the viewing experience for our customers across each of our existing platforms. Combined with the launch of a new, simpler pricing structure and a new customer service centre in Berlin, these significant initiatives will enable us to push ahead with our next leg of growth in this market.

In Italy, Sky Q is at the heart of our segmentation strategy, which is focused on building a solution for every household, combining the best of Group and local initiatives. When taken together with our streaming platforms, DTT and Sky over IP services, this expansive product portfolio means we've never been in a better position for long-term growth.

We continue to drive deeper product penetration among all our customers. Sky Mobile is now in over half a million homes in the UK and we've recently signed a new deal with Telefónica that will further strengthen this area of our UK business. In the year ahead, we will increase our penetration of fibre broadband customers with the launch of a new router, ensuring our customers are receiving the best experience no matter which platform they use to access our services.

Sky Mobile

Our customer service is best in class

We know customers want the best experience whenever they interact with Sky and giving them excellent customer service remains at the forefront of everything we do. We have embraced data and automation to keep making customer interactions simpler and quicker, driving higher satisfaction scores as well as delivering further efficiency within our business.

In the UK, we have once again been recognised by Ofcom for our superior service and have launched our VIP loyalty programme, rewarding customers the longer they remain with us. We also continue to make great progress with our Digital First service delivery through the new My Sky app, which has now been enhanced to include engineer tracking, putting an end to customers having to wait in for the engineer to arrive. In Germany and Austria, we have similarly launched the Mein Sky service app as we take our next steps in digital service in these markets. We will also be launching a loyalty programme there in September, replicating the success of similar initiatives in Italy and, more recently, the UK.

Engineer tracking
on the My Sky app

Our growing social impact

Our contribution to the cultural, economic and social life of the communities in which we live and work has never been greater. I'm proud we continue to grow as a business that plays its part in making a difference and bringing about change in the issues that both we and our customers care about.

Sky has a strong history of taking the lead on environmental issues that matter to our customers. We are currently the only FTSE 100 firm committed to eliminating the use of single-use plastics from our operations, products and supply chain by 2020 and are on track to do so. In the past year, we've already eliminated the use of disposable coffee cups, a simple act saving 12 tonnes of annual plastic waste, or seven million cups. We are also using our voice and reach to raise awareness of the crisis in ocean health through our Sky Ocean Rescue campaign, and are inspiring others to make changes through new partnerships with the likes of National Geographic and the Premier League. This year also saw us establish Sky Ocean Ventures, which will help find solutions to the single-use plastics issue we face by investing in breakthrough ideas for the future.

Sky Ocean Rescue partnership with Premier League

We also invest in and are passionate about helping high-potential young people receive the support they need for their talent to flourish. As well as our Sports Scholars programme, which has now expanded into Europe, we have two new scholarship programmes in the UK. The first, in partnership with National Geographic, gives grants to young innovators to enhance the impact of their scientific research into ocean health. The second sponsors female entrepreneurs working in technology and underpins our commitment to increase the number of women working in this field.

Sky's people are our greatest asset

The people who work for Sky across our seven territories are central to our success. I am very grateful every day for their hard work, enthusiasm and dedication to making Sky an even better place to work and to creating even better services for our customers. The restlessness, creativity and ability to get things done, which has always been at the heart of Sky, has never been more apparent and it's through our people that our ethos 'believe in better' remains strong.

Perfectly placed to succeed

We exit the year in a strong position. In our vibrant and dynamic markets, we have the right strategy, infrastructure, people and culture in place to continue delivering for customers and shareholders. This will be achieved while meeting our responsibilities as a large business and using our expanding reach across Europe in the interests of all our stakeholders. As direct-to-consumer relationships become more important than ever before, Sky is a business that is well positioned to succeed.

Jeremy Darroch, Group Chief Executive

Our approach

Our marketplace

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

When looking at our business and the markets we are in today, we see a significant growth opportunity ahead. We have 23 million customers to whom we can offer more products. In addition, around 78 million households have yet to take pay TV in all our markets, giving us substantial headroom to address with our multi-platform and streaming TV services. We continue to look at other opportunities to grow and may add new products and services to our portfolio, for example launching a triple-play service in Italy in 2019.

Opportunities in adjacent markets represent significant further areas of growth.

Customers are increasingly consuming content in digital formats, with the transactional home video market valued at around £2.7 billion across our core markets.

We are able to exploit this opportunity through our own transactional video service, Sky Store.

In addition, our advertising sales house, Sky Media, operates in an advertising market worth £14 billion across the Group.

With strong global demand for high-quality content, Sky Vision, our production and distribution arm, goes from strength to strength, now generating over £200 million in revenues.

We are now firmly establishing our presence in the UK mobile market which is worth £16 billion.

Our strategy

Our strategy is to grow our revenues and profits while creating sustainable value for shareholders by providing the best and broadest range of content, market-leading innovation and world-class customer service; moving into new markets, opening up new customer segments and expanding our range of products and services.

At the heart of our strategy are the steps we have taken to build our position as Europe's leading entertainment and communications business. This year we have launched new and unique streaming services in **Spain** and **Switzerland**, expanding our international footprint. In Spain, customers can access the best of Spanish pay TV along with Sky originals and a wealth of on demand content, all on a flexible, pay-as-you-go basis. In Switzerland, Sky Sport largely mirrors the sports offering we provide customers in Germany, whilst Sky Show focuses on brilliant entertainment, both live and on demand. Although very early days for all of these services, we have strong plans in place to accelerate their growth from here.

Across all our markets we ensure Sky is the home of more of the best content from around the world, with sustained innovation across multiple platforms, delivered by a trusted brand that offers world-class customer service. This customer proposition enables us to pursue the significant opportunities for growth in the attractive markets where we operate.

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

Our business model

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

Our strengths

Great content

We invest to deliver the best and broadest range of content 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 an increasing number of our own original productions.

Market-leading innovation

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

Our customer focus

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

Growth opportunities

Growing pay TV and product penetration

Across our core markets there is a significant opportunity for growth, with 78 million households yet to take pay TV. We have further developed our segmented customer offers to ensure we are well placed to persuade more customers to join and stay with Sky.

Selling more to customers

We focus on broadening out our range of products and services to offer more to existing customers in ways that most suit their needs. We have now expanded into the mobile market in the UK and will launch a triple-play service in Italy.

Scaling adjacent businesses

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

How we create value

Growing pay TV and product penetration

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

Driving efficiency

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

Seeing the Bigger Picture

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

Investing in people

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

Our performance

Financial key performance indicators

Adjusted revenue¹

£13,585m

+5%

Description

Adjusted revenue includes revenue from Direct-to-Consumer, Advertising and Content businesses. 2017 revenue excludes the sale of Rio Olympics rights in Italy. 2016 revenue excludes the 53 week.

Analysis

Adjusted revenue is a key measure of how the Group is delivering on its strategy to grow the business. In 2018, revenue grew by 5% on a constant currency basis, including strong growth in both content and advertising.

Programming and operating costs¹

Description

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

Analysis

Programming costs increased by £172 million as we continue to invest on screen for customers, including the £153 million increase in the new Bundesliga football deal, a strong schedule of Sky Originals and an improved entertainment schedule. Operating costs increased by only 2%, reflecting the strong progress we made driving efficiencies through the business.

Adjusted operating profit¹

£1,574m

+7%

Description

Adjusted operating profit is a measure of the profit generated by the business from its revenues and excludes items that may distort comparability from year to year.²

Analysis

Adjusted operating profit is a key measure of the underlying business performance. In 2018 adjusted operating profit was up 7%, as a result of our strong revenue growth and excellent progress in operating efficiency.

Adjusted EBITDA¹

£2,349m

+9%

Description

Adjusted EBITDA is a measure of the profit generated by the business, excluding depreciation and amortisation costs. For the purposes of understanding the underlying performance of the Group, the measure also excludes items that may distort comparability.²

Analysis

Adjusted EBITDA is a key measure of profitability. In 2018 adjusted EBITDA increased by 9% on the previous year, as a result of our strong revenue growth and excellent progress in operating efficiency.

Adjusted EPS¹

67.3p

+5.9p

Description

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

Analysis

Adjusted basic EPS provides a measure of shareholder return that is comparable over time. Adjusted basic EPS was up 10% year on year due to the increase in adjusted operating profit, greater contribution from joint ventures and associates, lower interest costs and lower tax.

Total shareholder return

3-year

10-year

Description

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

Analysis

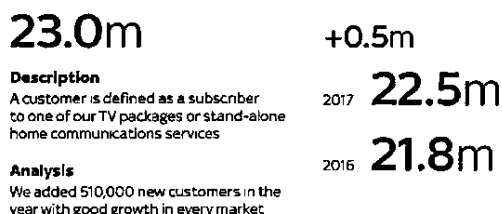
TSR represents a comparable measure of shareholder return over time. Sky shares outperformed the FTSE 100 index over both a medium (3-year) and long-term (10-year) period illustrating the strong shareholder returns that Sky generates.

¹ This is an adjusted measure and a reconciliation between statutory and adjusted measures can be found on page 135.

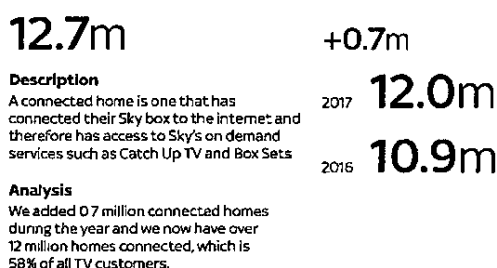
² Unless otherwise stated, all growth rates and comparative amounts are presented on an adjusted like-for-like basis and on a constant currency basis using current period exchange rates, excluding the resale of Rio Olympic rights in Italy in FY17 and the 53rd week in 2016. The financial results of Italy and Germany are translated into sterling at a constant currency rate of €1.12 : £1.

Operational key performance indicators

Retail customers



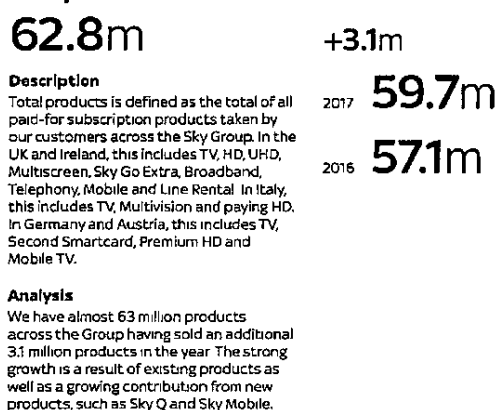
Connected homes



Sky Q households

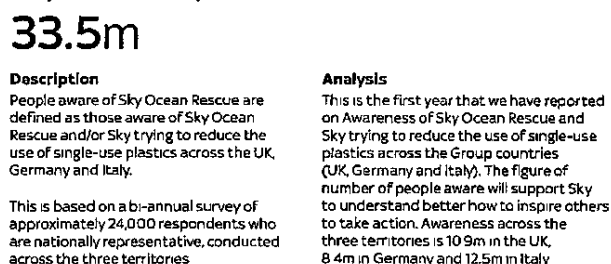


Total products

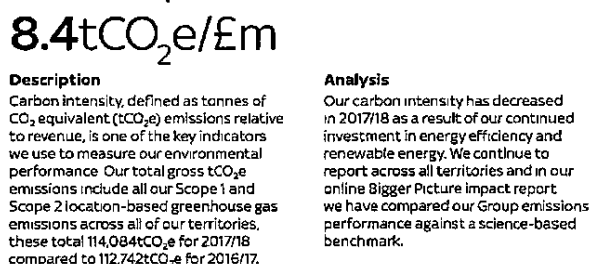


The Bigger Picture

People aware of Sky Ocean Rescue



Carbon intensity



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

The Bigger Picture

We're at the heart of the lives of millions of people, which is why we use our voice to drive change on the issues that matter to our customers and the world we live in. We aim to be an inspirational business and use our strengths to inspire young people to be their best.

55%

reduction in CO₂e intensity in the UK and Ireland, exceeding 2020 target

Being an inspirational business

We aim to be the most environmentally friendly media company in the world
We're proud to have exceeded our 2020 target to halve CO₂e emissions, relative to revenue, a whole two years early. We've achieved this through investing in energy efficiency and renewables. We have now set out our path to dramatically reduce the greenhouse gas emissions in Sky's value chain – from the manufacture of our products to their use in customer homes. This means we play our part in a world where warming is limited to well below 2° celsius, closer to 1.5°, by 2050.

We've also continued to develop our renewable energy approach with suppliers. Collaboration with our long-standing partners resulted in the installation of large scale solar energy infrastructure on two further key manufacturing sites.

See our GHG emission tables on:
page 63

80%

increase in the number of scholarships launched this year

We aim to be the most accessible provider of services

We're working to make the whole Sky experience accessible to all customers, including those with disabilities.

We're customer-led in our offering of subtitling and audio described content, prioritising the best content and great audio describers across 24 TV channels. In the UK, we audio describe just under 30% of this content, going beyond the Ofcom requirement of 10%. Over 80% of our Sky On Demand content is now available with subtitles and we continue to work with third-party broadcasters to provide access services on demand.

Going forward, we are working to increase awareness of audio description and availability of audio description on demand.

175 tonnes

of single-use plastic to be saved from our operations and products across the Group by the end of December 2018

We aim to set and adhere to the highest standards in our ways of working

We've continued our assessment of suppliers and our policy approach to human rights is set out on our website alongside our progress outlined in Sky's Modern Slavery Statement 2018. This year we've had a particular focus on identifying any human rights risks and putting in place mitigations across TV and Sports production. Following the identification of modern slavery risks in the UK recycling industry, Sky has taken a lead role on developing an industry response focusing on electronics waste recycling.

See our Modern Slavery Statement at:
skygroup.sky/corporate/home

We have maintained a strong focus on privacy, with the successful launch of our GDPR readiness programme.

Inclusion

It's our people that make Sky Europe's leading entertainment company. That's why we work hard to be an inclusive employer, so everyone at Sky can be themselves and deliver their best work. This year we've increased our efforts to improve female and Black, Asian and Minority Ethnic (BAME) representation. We've launched our Women in Home Service and development programmes to better prepare mid-level women for leadership. We've launched Digify, providing training and paid placements to digital creatives from BAME backgrounds, and continue to support the MamaYouth Project. Joining existing LGBT+, Parents and Women@Sky employee networks, we launched new networks focusing on multicultural, mental and physical ability as well as wellbeing. We're also using our voice to inspire other organisations to create a fairer, more inclusive society.

Inspiring young people to be their best

"Knowing that Sky see the potential in me has inspired me to keep on striving to achieve my goals."

Kike Oniwinde

Taking high potential young people and creating the conditions for them to thrive

Five years ago we launched our scholarship journey with Sky Sports Scholars. This year we have grown our scholars programme, launching Sky Women in Tech, and Sky Ocean Rescue across our European markets. These provide a unique combination of financial support, personal development, learning, mentoring and practical experience of the world beyond their area of expertise.

Inspiring others to take action

We aim to use the full power and scale of Sky to inspire others, including our people, to take action.

We are taking big issues that matter to our customers, like ocean health, and connecting with other organisations and millions of people. In January we celebrated one year of Sky Ocean Rescue, by encouraging everyone to join us to #PassOnPlastic and make simple everyday changes to cut down on single-use plastic. Since then over one million people have shown their support.

Our research has indicated that, as the leading corporate voice in the space of ocean plastics, we have an important role to play in maintaining momentum. We'll do this through our commitments across the business and impactful partnerships with the experts.

Sky Ocean Rescue

Shining a spotlight on the issues that affect ocean health and inspiring people to make simple everyday changes that collectively make a huge difference.

Transforming our own business

- Be single-use plastic free in our products and operations by 2020
- Work with our business partners and supply chain to do the same
- Lead the way for other businesses

33.5m

people aware of Sky Ocean Rescue in our core markets

Using our voice to inspire action

- Inspire our customers through our content, to make simple everyday changes
 - Call for governments to adopt policy changes
 - Encourage millions to join us with key partnerships including Volvo Ocean Race, Premier League and WWF
- All new products launched have single-use plastic free packaging

Making our oceans resilient with WWF

- We're working with people who live, work and play on our coastlines to make sure they're making ocean friendly choices
- We're finding innovative ways to protect marine animals and sharing what we learn with governments and businesses
- We're creating ways to secure protection for our oceans for the long term

Sky Ocean Rescue & WWF working together to protect marine areas

220+

MPs and MEPs signed up to #PassOnPlastic

3

Sky Ocean Rescue Scholars announced with National Geographic

Sky Ocean Ventures

- Launched in March 2018, investing in startups to accelerate ideas to solve the ocean plastic crisis
- Partnerships with National Geographic Innovation Challenge and Imperial College launched

£25m

Sky Ocean Ventures investment fund was launched with anchor funding by Sky plc

First Investments announced in summer 2018

Skipping Rocks Lab
Choose H₂O

Operational and financial review

UK and Ireland

We have delivered an excellent operational and financial performance in the UK and Ireland at the same time as scaling growth in our new initiatives. More customers than ever are choosing Sky to connect them to more of what they love across TV, broadband, talk and mobile. We've brought world-class original content to millions of homes, reset the standard for today's viewing experience with our innovative products and continued our focus on delivering the best customer service.

Over the last 12 months, we generated £8.9 billion in revenue, up 4%, with UK EBITDA growth of 9% to £1,888 million¹. Our investment in new products and services grew our customer base by 270,000 to 13 million. At the same time, our total paid-for products grew by 2.7 million to 44.7 million, while churn fell 120 basis points year on year to 10.3%.

Sky Q leads the way

Across the UK and Ireland, we are building a bigger, better and more diversified business and central to our plans is the extension of our product leadership and penetration. Over the past 12 months, Sky Q has consolidated its position as Europe's best home entertainment system. Thousands of homes across the UK and Ireland are choosing the service, resulting in an average of 6,000 new Sky Q customers every day – making it our fastest-selling product. This year, we took another big leap forward in the evolution of Sky Q by rolling out the next wave of major enhancements and new functionality. Greater personalisation based on viewing habits, the expansion of voice search and the introduction of voice control means viewers can now discover more relevant content, more easily. A new wide-screen user interface allows users to simply navigate the breadth of programmes available, while the amount of Ultra HD programming on Sky Q has doubled over the past 12 months. The result of all this is more engaged customers who enjoy more video on demand, make more purchases through Sky Store, are bigger advocates of Sky and are therefore less likely to switch to a different provider.

Creating the whole home entertainment experience

We want to connect customers to more of what they love and in November we joined forces with Devialet – one of the world's most innovative audio businesses – to create Sky Soundbox, meeting customer needs for a greater sound experience. This all-in-one system significantly enhances Sky Q through ground-breaking acoustic technology. With the introduction of Spotify on the platform earlier this year, we are able to give customers a simple, high-quality home music solution with access to over 35 million songs. Together, these partnerships are a demonstration of how we'll continue to consolidate Sky Q's leadership.

Sky Soundbox

NOW TV available across more platforms

We continue to extend our product penetration among different customer segments by broadening the ways customers can access Sky content, providing brilliant services that suit every household and every person in that household. By focusing on giving customers great value for money no matter how they choose to access their favourite programmes, we have a variety of ways to grow our customer base.

NOW TV, our contract-free streaming service, attracts customers who want a low-cost, flexible way of accessing Sky content. The launch of the NOW TV Smart Stick – the UK's cheapest streaming stick – has made it even easier for customers to access content on any TV screen and comes with voice search functionality, a first for the NOW TV platform. When coupled with standalone NOW Broadband, which launched in January, we have given customers ultimate flexibility with no contract, easy switching and a reliable, unlimited service.

We'll extend NOW TV's availability across multiple platforms and devices through our new agreement with BT, which will see our full NOW TV service, including Sky Atlantic, become available on BT TV's set-top boxes next year. This means that Sky's portfolio of TV entertainment brands will be available to all UK consumers through every major pay TV service, reaching new customers and expanding the appeal of our channels to advertisers.

Scaling communications

Using the appeal of the Sky brand, we have extended our product penetration by expanding our services. Sky Mobile shook up the mobile industry when it launched last year and the strength of the service has continued to be acknowledged through both customer response and industry recognition. Our customer-centric proposition along with the availability of Apple and Samsung tablets, has resulted in over half a million customers now taking the service with more than 95,000 new Sky Mobile customers added in the final quarter alone. The service has also been ranked a top provider by *Which?* and won best MVNO at two major UK mobile industry awards.

At the same time our broadband business goes from strength to strength, with a growing subscriber base and fibre penetration now standing at 38%. We've also launched Sky Talk Shield, giving customers more control over the calls they wish to receive at no additional cost.

The best and broadest choice of content

This year we have continued to build on our outstanding track record of delivering the content customers want to watch. We've stepped up our investment in high-quality, original drama, which

¹ This is an adjusted measure and a reconciliation between statutory and adjusted measures can be found on page 135.

Save Me

has driven viewing up over 50% year on year. *Britannia*, starring David Morrissey, delivered Sky's second-biggest show launch so far, attracting 1.9 million views in the first week alone. Meanwhile, *Save Me*, starring Lennie James, became our most rapidly consumed box-set release, with more than one million customers watching all six episodes in the first two weeks. *Patrick Melrose*, starring Benedict Cumberbatch, launched with much critical acclaim, receiving the highest number of five-star reviews for a Sky original production to date, and receiving five Emmy® Award nominations.

We have also strengthened the Sky One brand by moving into more original British comedy, entertainment and drama with shows like *Bulletproof*, *Carmageddon* and *In the Long Run*. We also announced the rebrand of Sky Living to become Sky Witness, continuing to bring viewers the best of the US and procedural dramas, while driving greater customer awareness and viewer attribution to the channel.

Bulletproof

The strengthening of Sports, where we launched 10 new sports channels, has given customers more choice at no extra cost. With channels dedicated to our biggest sports, customers are now able to enjoy Sky Sports for as little as 60 pence a day, giving them exceptional value for money. As a result, total consumption per subscriber across our sports channels was up 5% year on year. At the same time, we secured a number of significant rights deals over the last 12 months on behalf of our customers. We successfully negotiated more Premier League matches than ever before, including every first-pick weekend match, plus Saturday evening fixtures for the first time, at a notable discount to our current agreement. Other significant

sports rights deals secured this year include extensions and enhanced rights to the English Football League, the England and Wales Cricket Board and the Ladies European Tour.

Creating the best customer service

Our focus on providing the best customer service in the industry is integral to all our plans. We continue to invest in new ways to interact with our customers so issues are resolved first time and it remains a simple and smooth process to contact Sky. This year, investment in our digital service has introduced artificial intelligence, enabling us to quickly connect our customers to the most suitable person to resolve their query. In addition, we've implemented a service concierge bot to the My Sky app, giving customers an immediate response when using this digital platform. Over 50% of basic customer transactions are now being completed digitally, with the My Sky app being used by 2 million customers every month.

Our superior service was once again recognised by Ofcom as a result of receiving the lowest number of complaints across TV, broadband and telephone for the ninth consecutive quarter

Rewarding customer loyalty with Sky VIP

Sky VIP

At the same time as improving service for all customers, we launched Sky VIP, the first tenure-based loyalty programme in the TV and broadband sector, meaning the longer customers have been with Sky, the better the rewards become. 1.9 million customers have signed up to the scheme and we are already seeing a positive impact on customer retention. We expect membership and awareness of Sky VIP to grow over the next 12 months as we market the proposition formally to customers for the first time.

Acting on important issues

Over the past 12 months, we've been taking more action through our Sky Ocean Rescue campaign, firmly putting the challenge of single-use plastic on the agenda of governments, businesses and consumers. Our actions have started at home, where we have committed to removing single-use plastics from our own business, operations and supply chains by 2020. We are on track to meet those targets, with 70 tonnes of single-use plastic removed from our business to date, 25% of our total usage. For example, along with disposable coffee cups, we've removed all single-use plastic water bottles, plastic straws and plastic cutlery from our offices. Our new products, the NOW TV Smart Stick and the Sky Soundbox, both launched without any single-use plastic packaging, and Sky Mobile SIMs will shortly be sent to customers in cardboard packaging, instead of plastic. While not always the easiest or cheapest decisions to make, we hope our actions will inspire others to adopt similar principles within their own organisations.

Germany and Austria

We've made significant progress transforming our business in Germany and Austria over the past 12 months. We have rebalanced our trading strategy, brought industry-leading products to market while at the same time comprehensively upgrading all our existing services and securing long-term content rights.

The substantial improvements we have made to our products and operations have transformed the customer experience and now provide a solid foundation to kick start our next stage of growth in what is Europe's largest TV market.

Over the last 12 months, we generated £2 billion in revenue, up 6%, with EBITDA of £119 million¹, only £28 million lower year on year, despite the £153 million step up in costs of the German Bundesliga contract. New products and services grew our customer base by 200,000 to 5.2 million, and our total paid-for products grew to 8.9 million, up 113,000 year on year. Churn was 15.0%, as we lost some lower value customers, and we expect it to improve as the set of comprehensive initiatives we've launched this year begin to take effect.

Sky Q as the new viewing standard

The best entertainment offer starts with the best viewing experience. In May, we set a new standard for TV viewing in Germany and Austria, with the launch of our next-generation TV platform, Sky Q. The launch has revolutionised the TV experience for our customers and follows the successful roll-out of Sky+ Pro in autumn 2016. Sky Q now allows customers to watch on multiple screens simultaneously, and gives viewers a more intuitive user interface. Almost one million Sky+ Pro customers automatically received the Sky Q user interface and functionality via a software update throughout May and June. In addition, the Sky Q box is now offered to new customers as standard, accelerating the platform's growth and enabling us to further drive product penetration. As in other territories, Sky Q is set to transform our business in Germany and Austria by building deeper engagement with our customers, increasing viewing and greater loyalty, in turn delivering higher satisfaction scores.

Transforming the viewing experience

As well as launching Sky Q, we significantly upgraded all of Sky's product experiences in Germany and Austria with a renewed focus on value for money, ensuring we have a world-class service for every household no matter how they wish to access Sky.

Our comprehensive upgrades started in February with the Sky Kids app, including the implementation of an updated user interface and new interactive features including online games.

This was coupled with improved security features to make sure parents and children can enjoy watching, in the knowledge that only suitable content is accessible. At the same time, we upgraded our Sky Go service, adding over 70 channels, an improved search functionality and a new intuitive design guided by genre, the same as that used in the UK and meaning it is now even easier for customers to find the content they love on the go.

We delivered a major upgrade for our Sky+ customers in March, including a content-rich new user interface that highlights key shows and offers a more personalised viewing experience. This followed the launch of Sky Store which offers customers greater choice and flexibility over their movie watching. Finally, in June, Sky Ticket customers benefited from a new 'continue watching' feature and a personalised home screen design, making it even easier to binge watch the shows they love on this flexible streaming platform.

We've taken a big leap forward in our Ultra HD (UHD) offering. For the first time in Germany, Sky secured the exclusive UHD broadcasting rights to 25 matches at the 2018 FIFA World Cup. The deal means that Sky was the only German broadcaster to show the top match of the day live in UHD. We also agreed a partnership with Vodafone and Unitymedia which means Sky's live sports and cinema content can be watched in razor-sharp UHD at scale across Germany.

Taken together, all these upgrades mean we have significantly increased the value customers are getting from Sky and our services have become more attractive to new customers taking a Sky subscription for the first time.

Strong year on screen

Das Boot

Sky Kids

¹ This is an adjusted measure and a reconciliation between statutory and adjusted measures can be found on page 135.

MasterChef

In order to deliver the best entertainment experience, we have also focused on accelerating the broadening of our content line-up. Our original content has performed very well with viewing of our dramas up three fold year on year. This has been led by the success of Babylon Berlin, our first German-language Sky original production, which was watched by over half a million viewers per episode and won eight TV awards. Viewers also enjoyed the second series of MasterChef, with audiences three times higher compared to the first season. The success is set to be repeated next year with Das Boot, Acht Tage, Der Pass and the HBO-Sky co-production Chernobyl coming to Sky customers across Germany. In August, we are also launching X Factor on Sky 1 following its success in Italy.

Expanding the reach of Sky Sport

While increasing the breadth and range of entertainment programming, we have remained a clear leader in sports. This year we have secured an important set of rights for the future including the main German football cup competition, DFB-Pokal, for a further three years, ensuring only Sky customers will be able to watch all 63 matches each season until 2022. We also made a milestone agreement for the worldwide rights to the Austrian Bundesliga, ensuring exclusive coverage in Austria for the first time across a three-year deal beginning with the 2018/19 season. These rights join those we have for UEFA Champions League next season, providing pay TV exclusive coverage to this tournament, for the first time in Germany and Austria.

At the same time the quality of our sports coverage has become even better with the opening of Sky Sport HQ, a new state of the art production centre just outside Munich, close to our German headquarters. Sky Sport HQ boasts four studios split over 1,700 square metres and has brought together all Sky Sport content across broadcast and online into a single location.

Investing in customer service and loyalty

Alongside our significantly enhanced customer proposition, we are step changing our customer service, focusing on strengthening our in-house capabilities while taking the next steps in digital-first delivery.

In January, we opened a new service centre in Berlin that will create hundreds of new jobs over the years ahead, becoming a centre of excellence for customer retention. We've also launched the Mein Sky app enabling customers to easily manage their subscription and quickly resolve issues using video tutorials and helpful hints and tips. The app has already been downloaded 750,000 times. In May, along with the launch of Sky Q, we introduced simplified pricing and packaging structures, giving customers clear, simple and consistent price points for our premium sports and cinema channels.

Finally, following our success in Italy and the UK, we will launch a tenure-based customer loyalty scheme in Germany in the autumn of 2018. The new scheme will take learnings from other territories, rewarding customers throughout their time with Sky, with the aim of improving customer retention and increasing brand loyalty.

Acting on important issues

We're committed to removing single-use plastics from across the Group and have already removed 58% of single-use plastic across catering and cleaning in Germany and Austria. We're taking our approach and embedding it within content production, with more sustainable and single-use plastic free alternatives used across a number of series including MasterChef, X-Factor and Acht Tage. In addition, Sky Ocean Ventures was launched at the Royal Jungle Conference in Munich in May, bringing together thousands of entrepreneurs and start-ups to inspire them in how we can help solve the oceans plastic crisis together.

By focusing on sustainability and carefully considering product recycling in the design of Sky+Pro, we've been able to refurbish and return over 90% of all set-top boxes to market over the past 12 months. In addition, following a review of Sky's investments in environmental efficiencies, Sky Deutschland has been awarded the ÖKOPROFIT environmental certification, further cementing our position as an environmental leader within our industry.

Italy

This has been a ground-breaking year for our Italian business. Customers in Italy now have more choice than ever before over how they watch content, with Sky now available across satellite, OTT, DTT and fibre. Bringing together this industry-leading connectivity with an ever-greater breadth and depth of world-class content means the business will continue to attract more customers to Sky.

Over the last 12 months, like-for-like revenue increased 6% to £2.6 billion, with EBITDA growth of 29% to £342 million¹. Launching our offer across new platforms while continuing to invest in our existing products and services grew our customer base by 40,000 to 4.8 million, and took our total paid-for products to 9.2 million, up 263,000 year on year. Churn remained stable at 10.1%.

Becoming a major multi-platform, multi-product company

Sky Q

Sky in Italy has now become a truly multi-platform business, giving customers new and innovative ways to access our service. Through product launches – including Sky Q – and new agreements we've made this year, we've never been better positioned for long-term growth in this market.

In March, we agreed a landmark deal with Mediaset that has already allowed us to launch a new Sky pay TV service on digital terrestrial television (DTT), utilising transmissions capacity offered by Mediaset Group. The new Sky on DTT service enables customers to sign up for Sky in a simple and convenient way through their TV, without the need for installation of a satellite dish or fibre connection. The service features 15 channels dedicated to entertainment, films and sport and will enable us to reach customers in segments we haven't done so before.

Launching Sky over fibre

Our multi-platform approach has extended to delivery over fibre. In order to give customers even more choice and flexibility, at the same time as ensuring a great TV experience, we launched Sky over fibre at the beginning of June – our first major territory to benefit from the new technology that delivers our Sky TV service without the need for a satellite dish. This technological

breakthrough has the potential to significantly increase Sky's footprint both in Italy and across Europe by widening the potential pool of subscribers and attracting new customers who either can't have or don't want a satellite dish.

Boosting Italian connectivity with Open Fiber

The roll-out of Sky over fibre will be further accelerated by our innovative partnership with Open Fiber, Italy's leading builder of FTTH (fiber-to-the-home) technology. The deal, which will be operational from summer 2019, gives Sky access to Open Fiber's FTTH network, which is set to reach the 271 main urban areas of the country by 2022. Additionally, the agreement will enable us to increase our product penetration among customers through the launch of a new triple-play offer next year.

Renewing NOW TV

Another way we're servicing our Italian customers is through our pay-as-you-go streaming service, NOW TV, which we continue to make even better. This year, we launched the NOW TV Smart Stick to the Italian market, refreshed the brand, and delivered a new user interface along with new features that will allow customers to download and play on the go.

Our partnerships will further widen our potential customer pool for NOW TV too. Through a new deal with Fastweb, we're now able to offer NOW TV customers access to a broadband package when purchasing our streaming product. Similarly, Fastweb customers can now purchase NOW TV Entertainment passes through one provider.

NOW TV Smart Stick

Upgrading Sky Go

As well as expanding the number of platforms the Sky service is on, we've continued to enhance and expand our number of products, driving more value into customers' subscriptions. This year we revamped Sky Go with a new-look user interface that makes it easier for viewers to find and watch their favourite programmes, as well as enabling on demand content to be watched on smartphones. The upgrade also includes the capability for subtitles, with a new Sky Go desktop app for Windows and iOS to be launched over the next year.

The biggest and best shows

As with our other markets, our market-leading suite of products sits alongside the very best choice of TV content. Our focus is on giving customers the best range and quality of content possible through both our own productions or acquired programmes. As part of our deal with Mediaset, we've made nine film and TV series channels available to Sky's existing satellite customers,

¹ This is an adjusted measure and a reconciliation between statutory and adjusted measures can be found on page 135.

X Factor

delivering even greater value. This deal will further enrich Sky's wide-ranging library of on demand content, bringing viewers the best of both local and global programming.

Our own original productions have focused on giving audiences shows with strong local cultural relevance and made with international execution standards. We're also working with industry leading talent including Alessandro Cattelan, the host of X Factor and one of Italy's most talented showmen, as well as the critically acclaimed actor Salvatore Esposito, a lead in our Sky original production Gomorrah. This approach is working, with viewing of Sky original dramas up 15% year on year. Within this, viewing of X Factor Italia was up again this year, including an 8% rise for the series finale. The third series of our hit show Gomorrah also performed very strongly, ranking number one at the box office when we released the first two episodes in cinemas prior to its premiere on Sky Atlantic. Il Miracolo also received acclaim from customers and critics, with viewing higher than international US programmes and on a par with the last series of Game of Thrones.

Gomorrah

The home of sports in Italy

In sports, we've also secured an important set of rights this year that position us well to give more value to existing customers, and attract new customers to take our service.

We have acquired exclusive rights to broadcast 266 live games per season for the 2018 – 2021 seasons of Serie A, Italy's top domestic league. The new deal means Sky Sports in Italy will be

the exclusive home to seven games out of 10 on each match day – more than twice as many exclusive matches versus today – and will feature 16 of the 20 biggest matches each season. Under the terms of the new deal, Sky will pay around a third less for each exclusive match versus the current agreement. Our new deal with Mediaset will also enable us to broadcast the matches over DTT for the first time, reaching more football fans than ever before.

The Serie A rights will add to the already extensive sports offer available on Sky, including majority exclusive UEFA Champions League, Formula 1, Europa League and Moto GP coverage.

Sky Sport and Calcio viewership continues to perform well, with Serie A Championship up 6% over the last year, due to a more competitive tournament, and Formula 1 grew 23% year on year due the victories of the Ferrari team.

Serie A

Customer service

Our customer service experience in Italy continues to improve with our focus on enhancing digital channels working well. 60% of customer service requests are now self-served, up 5% year on year. Over 2 million customers are also enrolled in our loyalty scheme following its relaunch in April, making it simpler for customers to engage with the programme and offering more Sky-based rewards.

Acting on important issues

Our Sky Ocean Rescue campaign has also been rolled out in Italy. In April, we removed all single-use plastic water bottles from our sites, supplying staff with reusable bottles, meaning we've now saved 8 tonnes of plastics from our Italian operations. We also continued our commitment to removing single-use plastic from our operations by launching the NOW TV Smart Stick in Italy without any single-use plastic packaging, and replaced all NOW TV pre-paid plastic cards with cardboard.

The campaign reached new audiences in Italy through a collaboration with X Factor that saw the stage set made of single-use plastic. We also used our partnerships within sport to inspire fans and spectators at the San Marino Grand Prix to take action to safeguard ocean health, while we worked with the Misano GP to reduce single-use plastic on site.

Financial review

Andrew Griffith

Group Chief Operating Officer and Chief Financial Officer

We've delivered another set of strong results with like-for-like revenues up 5%, Established EBITDA up 11% and EPS up 10%.

Group financial performance

Unless otherwise stated, all numbers are presented on an adjusted basis for the year ended 30 June 2018. For comparative amounts in the prior year down to operating profit, numbers are translated at a constant currency rate of €1.13:£1 being the average exchange rate prevailing in the year to 30 June 2018, while content revenue and programming costs also exclude the one-off sale of the Rio Olympic rights in Italy in the prior year.

Adjusted results exclude items which may distort comparability in order to provide a measure of underlying performance. Such items arise from events or transactions that fall within the ordinary activities of the Group but which management believes should be separately identified to help explain underlying performance. Further details of the adjusting items impacting the Group can be found in note 8 to the consolidated financial statements. A reconciliation of the Group's statutory and adjusted consolidated income statement can be found in the Non-GAAP measures section of the consolidated financial statements on page 135.

Revenue

Group revenues increased by £588 million, or 5%, to £13,585 million (with growth of £669 million or 5% on a statutory basis, at actual exchange rates).

We delivered growth in each territory, with the UK and Ireland up 4% (+£331 million), Germany and Austria up 6% (+£107 million) and Italy up 6% (+£150 million). We also delivered revenue growth in each category.

Direct-to-consumer revenue, our largest revenue category, grew by 3% or £396 million to £11,830 million, driven by a number of factors. These include: the increased size of our customer base; greater product penetration, as we grow into Sky Fibre, Sky Q and Sky Mobile, a higher number of pay-as-you-go buys; the full-year benefit from our home communications price rise in the UK in March 2017; and a price rise in Italy in October 2017.

Content revenue strongly increased by 15% (+£110 million) to £838 million as we monetised our growing investment in original programming. Similarly advertising revenue grew 10% (+£82 million) to £917 million with each territory outperforming its market.

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

Costs

We made excellent progress in operating efficiency, with operating costs as a percentage of revenue improving by 70 basis points, and as a result total costs of £12,011 million increased by 4% (£12,551 million or an increase of 5% on a statutory basis, at actual exchange rates).

We continued to invest on screen for customers, with programming costs up 4% (+£225 million). This includes a £153 million step up in Bundesliga costs in Germany and greater investment in original drama. This was partly offset by a change to our sports rights amortisation in the UK, following the repackaging of our sport channel proposition, to an approach similar to that of Italy and Germany. As a result we are allocating 97.5% of the Premier League costs from the 2017/18 season to this fiscal year, with 2.5% or £35 million deferred into the 2019 fiscal year.

Direct network costs increased by 21% as we scaled growth in Sky Mobile to over half a million customers, and increased fibre penetration to 38% of the total broadband customer base.

Sales, general and administrative costs were up only 2% (+£79 million) and down 70 basis points as a percentage of revenue to just 33%. We absorbed our increased investment in brand to support Sky original dramas and the launch of Sky Q in Italy and Germany, as well as higher depreciation as a result of investment in the roll-out of Sky Q set-top boxes, Group integration and our UK campus. This performance reflects the strong progress we have made driving operating efficiency through the business as well as the benefit of capitalising rather than fully expensing Sky Q costs.

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

Profit and earnings

As a result of our strong revenue growth and excellent progress in operating efficiency, Established business EBITDA was up 11% to £2,456 million (2017: £2,208 million). EBITDA was up 9% after including the net costs of our investments in Sky Mobile and our streaming TV service in Spain.

Adjusting for depreciation and amortisation of £775 million, operating profit was up 7% to £1,574 million (2017: £1,473 million), or up 7% to £1,034 million on a statutory basis at actual exchange rates.

Tax was £1 million lower at £214 million, at an effective rate of 15.5% (2017: 17.0%) mainly reflecting the reduction in the UK rate and the recognition of tax allowances in Italy.

Profit after tax was £1,168 million (2017: £1,048 million), resulting in earnings per share of 67.3 pence, up 10% (2017: 61.4 pence) or 47.5p, up 17% on a statutory basis at actual exchange rates. The total weighted average number of ordinary shares was 1,716 million (2017: 1,710 million shares).

Statutory revenue, profit and adjusting items

Statutory revenue for the year of £13,585 million was up 5% from the prior year (2017: £12,916 million), which included the one-off sale of the Rio Olympic rights in Italy.

Statutory operating profit for the year of £1,034 million (2017: £964 million) increased by 7%, reflecting 5% growth in statutory revenue, progress in operating efficiency and the movement in foreign currency exchange rates.

Statutory operating profit is after the deduction of net operating expenses of £540 million (2017: £504 million) comprising three elements: (i) the ongoing amortisation of acquired intangible assets and acquisition-related costs, (ii) one off costs associated with the offers for the Company and (iii) adjusting items including the costs of corporate efficiency and restructuring

£m	Year to 30 June 2018	Year to 30 June 2017
		Constant currency
Adjusted results		
Revenue	13,585	12,997
EBITDA	2,349	2,151
Operating profit	1,574	1,473
EPS – adjusted (pence)	67.3p	61.4p
		Actual exchange rates
Statutory results		
Revenue	13,585	12,916
Operating profit	1,034	964
EPS – statutory (pence)	47.5p	40.6p

programmes and the costs of integrating Sky Italia and Sky Deutschland, which were partly offset by income received with respect to regulatory receipts and proceeds from settlements.

A reconciliation of the Group's statutory and adjusted consolidated income statement can be found in the Non-GAAP measures section of the consolidated financial statements on page 135.

Cash flow and net debt

Free cash flow of £552 million was £277 million lower than the prior year, reflecting the investment in deploying Sky Q to customers in each of our markets (c£180 million), as well as a peak year for the payment of upfront deposits on key sports rights including Premier League, Serie A and English Cricket Board (c£230 million).

Net debt as at 30 June 2018 was £6.5 billion (30 June 2017: £6.2 billion). On a pro-forma basis reflecting Sky Bet sale proceeds actually received on 10 July, net debt would have been £6.0 billion, representing a net debt to EBITDA ratio of 2.6 times.

During the year the Group repaid its October 2017 and February 2018 bonds (£787 million) from existing cash resources. The Group continues to maintain a strong financial position and has ample headroom to its financial covenants, including excellent liquidity with cash of £1.6 billion as at 30 June 2018 and access to Revolving Credit Facilities totalling £1 billion.

Balance sheet

During the year, total assets decreased by £436 million to £18,002 million at 30 June 2018.

Non-current assets increased by £160 million to £13,264 million, primarily due to an increase of £180 million in intangible assets and property, plant and equipment due to continued capital investment; an increase in deferred tax assets of £123 million; and an increase in programming distribution rights of £46 million. These movements were offset by a decrease in non-current derivative financial assets of £168 million.

Current assets decreased by £596 million to £4,378 million at 30 June 2018, principally due to a £878 million decrease in cash and cash equivalents and short-term deposits, as a result of repaying two bonds this year from existing cash resources, and a £154 million decrease in derivative financial assets. These movements were offset by a £254 million increase in trade and other receivables and a £192 million increase in inventories.

Total liabilities decreased by £609 million to £13,982 million at 30 June 2018.

Current liabilities decreased by £229 million to £5,321 million, primarily due to a £527 million decrease in current borrowings following the repayment of two bonds in the year offset by the reclassification of non-current borrowing in line with bond maturities. This was offset by a £283 million increase in trade and other payables as a result of an increase in programming right payables and the timing of the year end close.

Non-current liabilities decreased by £380 million to £8,661 million principally due to £453 million decrease in the Group's non-current borrowings following the movement to current borrowings in the year, offset by a £54 million increase in trade and other payables.

Distributions to shareholders

The Company has remained in an offer period throughout the year

On 9 February 2018, shareholders received a 10 pence special dividend as the 21st Century Fox offer had not become effective by 31 December 2017. Following this, on 23 April 2018, shareholders received an interim dividend of 13.06 pence per share, representing an increase of 4% on the interim dividend paid in 2016 and making a total of 23.06 pence per share.

On 25 April 2018, Comcast announced a firm pre-conditional cash offer for Sky at an offer price of £12.50 per Sky share. Following the year end, on 11 July 2018, 21st Century Fox announced a recommended cash offer for the shares in the Company which it (or its affiliates) did not already own at an offer price of £14.00 per Sky share. Subsequently and also on 11 July 2018, Comcast announced an increased cash offer of £14.75 per Sky share which the Independent Committee of the Board recommended shareholders to accept.

The increased Comcast offer and increased 21CF offer both include an amount in lieu of a final dividend in respect of the financial year ended 30 June 2018, with Comcast and 21CF each reserving the right to reduce their respective offer prices by some or all of the amount of any dividend (which is announced, declared, paid or becomes payable to Sky shareholders). As a result, the Board is not proposing a final dividend at this stage.

	As at 1 July 2017	Cash flows	Non cash movements			As at 30 June 2018
	£m	£m	Transfers	Foreign exchange movements	Fair value changes and other	£m
Current borrowings	974	(937)	450	(47)	7	447
Non-current borrowings	8,207	-	(450)	(18)	15	7,754
Borrowing-related derivative financial instruments	(470)	147	-	107	106	(110)
Gross debt	8,711	(790)	-	42	128	8,091
Cash and cash equivalents	(2,200)	586	-	(8)	-	(1,622)
Short-term deposits	(300)	300	-	-	-	-
Net debt	6,211	96	-	34	128	6,469

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 32-45

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

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

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

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

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

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

The outcome of the UK referendum on EU membership continues to cause uncertainty in both the political and economic environments in which we operate. Although the large majority of our revenue is from subscriptions, we are not immune from the impact of any economic uncertainty. We do, however, believe that our business model means that we are comparatively well placed to manage the consequences of the result and of its effect on the economic environment. Our operations are conducted mainly on a territorial basis and our business involves limited movement of goods and services between the UK and the rest of the EU and, to the extent that it does, we can adapt our business processes as necessary. Like all companies, we will need to monitor and manage the practical implications as they occur. Where appropriate we have also outlined in the table below the impact of the result on our principal 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>Market and competition:</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>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>Regulatory breach and change:</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 28 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"> Broadcasting – as a provider of audio visual 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; Technical services – as a provider of certain technical services in the UK and Germany, Sky UK and Sky Deutschland are subject to regulation in their respective countries; and 	<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"> 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; 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;

Description of risk	Mitigation
<ul style="list-style-type: none"> Telecommunications – Sky UK is subject to the General Conditions of Entitlement adopted under the Communications Act 2003 (UK) and the Conditions for the provision of Electronic Communications Networks and Services under the Communications Regulation Act 2002 (Ireland), which impose detailed requirements on providers of communications networks and services. <p>The Group is also subject to generally applicable legislation including, but not limited to, competition (antitrust), anti-bribery, consumer protection, data protection and taxation.</p> <p>The Group is currently, and may be in the future, subject to proceedings, and/or investigation and enquiries from regulatory and antitrust authorities.</p> <p>The telecommunications and media regulatory framework applying to the Group in the UK and the EU may be subject to greater uncertainty in the event that the UK leaves the EU. Potential changes to the regulatory framework could include divergence in the long term between the UK and EU regulation of telecommunications and media, and changes to certain mutual recognition arrangements for media and broadcasting. Sky does not currently foresee any changes as a result of a UK exit that would have a material impact on its business.</p> <p>Please see page 28 of the 'Regulatory matters' section for further details.</p>	<ul style="list-style-type: none"> Telecommunications – compliance controls and processes are in place in the UK and Ireland, overseen by the Customer Compliance Committee, to monitor compliance and performance against the General Conditions of Entitlement and the Conditions for the Provision of Electronic Communications Networks and Services. <p>The Group maintains appropriate oversight and reporting, supported by training, to provide assurance that it is compliant with regulatory requirements.</p> <p>The Group will monitor carefully future developments that arise out of the result of the UK referendum and will engage in any relevant regulatory processes.</p>
Customer service:	
<p>A significant part of the Group's business is based on a subscription model and its future success relies on building long-term relationships with its customers. A failure to meet its customers' expectations with regard to service could negatively impact the Group's brand and competitive position.</p>	<p>The Group strives consistently to exceed its customers' expectations, to put its customers first, to understand what they want and to be responsive to what they say.</p> <p>The Group makes significant investments in order to deliver continuous development and improvement to its customer service capabilities, including investment in its contact centres across the UK and Ireland, insourcing of service centres in Germany and implementing ongoing training and development plans</p> <p>The Group tracks its customer service performance, benchmarks its customer service experience and strives to be best in class</p>
Technology and business interruption:	
<p>The products and services that the Group provides to its customers are reliant on complex technical infrastructure.</p> <p>A failure in the operation of the Group's key systems or infrastructure, such as the broadcast platform, customer management systems, OTT platforms or the telecommunications and mobile networks on which the Group relies, could cause a failure of service to our customers and negatively impact our brand.</p>	<p>The Group makes significant investment in technology infrastructure to ensure that it continues to support the growth of the business and has a robust selection and monitoring process of third-party providers. The Group is committed to achieve best in class business continuity standards and makes significant investments in the resilience and robustness of its business infrastructure.</p> <p>The Group also organises regular scenario-based group-wide business continuity exercises to ensure ongoing readiness of key staff, systems and sites</p>
Suppliers:	
<p>The Group relies on a number of third parties and outsourced suppliers operating across the globe to support its business</p> <p>A significant failure of a supplier or a discontinuation of supply could adversely affect the Group's ability to deliver operationally.</p>	<p>The Group continues to invest in its supply chain infrastructure to support its business plan commitments. A robust supplier selection process is in place with appropriate ongoing management and monitoring of key partners and suppliers</p> <p>The Group performs regular audits of key suppliers and of their installations and, wherever possible, has dual supply capability</p>

Principal risks and uncertainties continued

Description of risk	Mitigation
<p>Financial:</p> <p>The effective management of its financial exposures is central to preserving the Group's profitability</p> <p>The Group is exposed to financial market risks and may be impacted negatively by fluctuations in foreign exchange and interest rates, which create volatility in the Group's results to the extent that they are not effectively hedged.</p> <p>Any increase in the financial leverage of the Group may limit the Group's financial flexibility.</p> <p>The Group may also be affected adversely by liquidity and counterparty risks.</p>	<p>The Group's finance teams are embedded within the business to provide support to management and to ensure accurate financial reporting and tracking of our business performance. Reporting on financial performance is provided on a monthly basis to senior management and the Board.</p> <p>The Group continually invests in the improvement of its systems and processes in order to ensure sound financial management and reporting. The Group has a formal Treasury Policy which is reviewed and approved by the Audit Committee on an annual basis. In addition, the Group COO and CFO monitors the Treasury Policy on an ongoing basis to ensure its continuing appropriateness. The Treasury Policy covers all areas of treasury risk including foreign exchange, interest rate, counterparty and liquidity.</p> <p>The Group manages treasury risk by minimising risk to capital and uses appropriate hedging instruments and strategies to provide protection against adverse foreign exchange and interest rate movements.</p> <p>Trading transactional currency risk is hedged up to five years in advance. Interest rate risk protection is in place using interest rate swaps and an appropriate currency mix of debt is maintained using cross-currency swaps.</p> <p>Cash investment is made in line with the Treasury Policy which sets limits on deposits based on counterparty credit ratings. No more than 10% of the Group's cash deposits are held with a single bank counterparty, with the exception of overnight deposits which are invested in a spread of AAAF-rated liquidity funds.</p> <p>The Group maintains headroom within our banking covenants to allow for unforeseen adverse impacts on our leverage ratio as a result of either economic decline or extreme currency movements.</p> <p>The Group maintains strong liquidity as part of its core strategy, with high cash balances and access to £1.5 billion under fully undrawn revolving credit facilities.</p> <p>The Group manages its tax risk by ensuring that risks are identified and understood at an early stage and that effective compliance and reporting processes are in place.</p> <p>The Group continues to maintain an open and proactive relationship with all relevant tax authorities, including HM Revenue & Customs. The Group aims to deal with taxation issues, wherever possible, as they arise in order to avoid unnecessary disputes.</p>
<p>Security:</p> <p>The Group must protect its customer and corporate data and the safety of its people and infrastructure as well as needing to have in place fraud prevention and detection measures.</p> <p>The Group is responsible to third-party intellectual property owners for the security of the content that it distributes on various platforms (Sky's own and third-party platforms).</p> <p>A significant breach of security could impact the Group's ability to operate and deliver against its business objectives.</p>	<p>The Group ensures security-by-design, built in from the ground up, in its products, services and operation, making significant investment in leading technology, systems and infrastructure. Security protection and assurance is integrated into business processes, from research and development, to supply chain, sales and marketing, delivery, corporate operations and technical services.</p> <p>The Group works closely with law enforcement agencies and policy makers in order to protect its assets, and is compliant with applicable laws, regulations, standards of relevant countries and regions, third-party contractual obligations, and by reference to industry best practices.</p> <p>As part of security protection and assurance, the Group takes measures including physical and logical access controls to data and property, technologies to protect data, services and infrastructure, third-party security assessments and the monitoring of key partners to manage security risks.</p> <p>The Group ensures that its employees, partners and suppliers comply with security policies and requirements, and receive appropriate training so that security, in particular cyber security, is deeply rooted throughout the Sky Group.</p> <p>The Group takes a proactive approach to threat management and readiness in order to minimise risk and has a dedicated cyber security team which includes security analysts, threat intelligence specialists and senior security engineers. They engage in intelligence monitoring and detection to hunt for security threats.</p> <p>The Group actively recruits industry leading security professionals with industry recognised certifications and professional training.</p>

Description of risk	Mitigation
<p>Projects:</p> <p>The Group invests in, and delivers, significant capital expenditure projects in order to continually drive the business forward.</p> <p>The failure to deliver key projects effectively and efficiently could result in significantly increased project costs and impede our ability to execute our strategic plans.</p>	<p>A common project management methodology is used to enable the Group to manage, monitor and control its major capital expenditure projects and strategic programmes. This includes detailed reporting and regular reviews by senior management as well as cross-functional executive steering groups for major projects.</p> <p>Third-party partners will, where appropriate, be engaged to provide support and expertise in our large strategic programmes, complex initiatives and for emerging technologies.</p>
<p>Intellectual property protection:</p> <p>The Group, in common with other service providers, relies on intellectual property and other proprietary rights, including in respect of programming content, which may not be adequately protected under current laws or which may be subject to unauthorised use.</p>	<p>We maintain an ongoing programme to support appropriate protections of our intellectual property and other rights. This involves both unilateral action and close co-operation with rights licensors and other bodies. This includes, for example, the use of automated online monitoring tools, the implementation of on-screen imprinting of content and steps in support of the Premier League's action to require UK ISPs to block illegal streams of live PL matches together with an active programme to protect our intellectual property rights, including registering patents for our products where applicable.</p>
<p>People:</p> <p>People at Sky are critical to the Group's ability to meet the needs of its customers and achieve its goals as a business. Failure to attract or retain suitable employees across the business could limit the Group's ability to deliver its business plan commitments.</p>	<p>Making Sky a great place to work is central to the Group's strategy. The Group champions diversity and develops talent through a number of activities, including the Graduate programme, Development Studio, an apprenticeship scheme and a leadership programme.</p> <p>The Group invests in the working environment to make Sky an even more appealing place to work. The Group has well established channels and procedures to recruit and retain its employees, and to ensure that an adequate number of suitable employees work within its customer service teams and across all its operations.</p> <p>Further details on our people are set out in the Employees section of the Directors' report on page 61.</p>

Viability statement

In accordance with provision C.2.2 of the UK Corporate Governance Code 2016, the Directors have assessed the viability of the Group over the three years to 30 June 2021. The assessment has taken account of the current position of the Group and the potential impact of the principal risks detailed on pages 24 to 27 of the Annual Report.

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

Based on the results of the assessment, the Directors confirm that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three-year period to 30 June 2021.

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

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic report on pages 2 to 29. The financial position of the Group, its cash flows and liquidity position are described in the Financial review on pages 22 to 23. In addition, notes 1 to 31 to the consolidated financial statements include details of the Group's treasury activities, long-term funding arrangements, financial instruments and hedging activities and exposure to financial risk.

As set out above, the Group has sufficient financial resources which, together with internally generated cash flows, will continue to provide sufficient sources of liquidity to fund its current operations, including its contractual and commercial commitments as set out in note 26 on page 121, its approved capital expenditure and any proposed dividends, and the Group is well placed to manage its business risks successfully, despite the current economic outlook.

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

Regulatory matters

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

European Commission investigation

On 13 January 2014, the European Commission (the 'EC') opened a formal antitrust investigation into cross-border provision of pay TV services in the European Union. The investigation was opened into certain provisions relating to territorial protection in licence agreements between major US film studios (Twentieth Century Fox, Warner Bros., Sony Pictures, NBC Universal, Paramount and Disney) and key European pay TV broadcasters (Sky UK, Canal Plus, Sky Italia, Sky Deutschland and DTS, operating under the Canal Plus brand in Spain). On 23 July 2015, the EC adopted a Statement of Objections, setting out its preliminary finding that there has been an infringement of EU Competition law involving Sky UK and on 12 January 2018 the EC sent a Letter of Facts setting out additional supporting evidence in relation to that preliminary finding. Sky UK and the Studios have responded to the EC's case, both in written responses (in particular October 2015 and March 2018) 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.

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

On 6 August 2015, Ofcom opened an investigation on whether there are reasonable grounds for believing that Sky has failed to comply with its obligations under the Ofcom General Conditions of Entitlement which require communication providers to ensure that their conditions or procedures for contract termination do not act as a disincentive for end-users changing their communication providers. On 7 August 2017, Ofcom closed the investigation deciding to take no further enforcement action, following consideration of Sky's representations.

Competition law investigation into 2014 Serie A auction

On 19 April 2016, the Italian Competition Authority (the 'ICA') made its final decision in relation to the award of Serie A TV Broadcasting Rights for the 2015-18 seasons. According to the ICA, Lega Nazionale Professionisti Serie A, its advisor Infront Italy S.r.l., and TV broadcasters Sky Italia, Reti Televisive Italiane S.p.A. and its subsidiary Mediaset Premium S.p.A. entered into an anticompetitive agreement in breach of Art. 101 of the Treaty on the Functioning of the European Union to change the award of TV broadcasting rights for the 2015-18 seasons Serie A matches. With respect to Sky Italia, the ICA concluded that it had played a marginal and defensive role in the infringement in order to obtain the award of at least one of the two packages that should have been assigned to Sky Italia based on the tendered offers. Moreover, Sky Italia extensively co-operated with the ICA during the proceedings. Accordingly, the ICA imposed a fine equal to €4 million on Sky. On 18 June 2016, Sky Italia filed an appeal seeking the

annulment of the decision. On 23 December 2016, the Italian Administrative Court (TAR Lazio), upheld Sky Italia's appeal and annulled the ICA decision in its entirety. On 23 March 2017 the ICA filed an appeal against the TAR decision before the Consiglio di Stato. The date of the hearing before the Consiglio di Stato has not been fixed yet.

21st Century Fox's offer for Sky

When announced, the 21st Century Fox Offer (see further details on page 34) was subject to the satisfaction or waiver of certain pre-conditions, principally being regulatory clearances.

On 16 March 2017, the Secretary of State for Digital, Culture, Media and Sport (the 'Secretary of State' and 'DCMS' respectively) intervened on media plurality and broadcasting standards grounds. On 14 September 2017, following reports from Ofcom and the Competition and Markets Authority (the 'CMA'), the Secretary of State referred the 21st Century Fox Offer for an in-depth Phase II review on both grounds.

On 1 May 2018, the CMA provided its final report to the Secretary of State, concluding that the transaction may be expected to operate against the public interest on media plurality grounds, but that divestment of Sky News to Disney (or another suitable purchaser), as proposed by Fox, would be an effective and proportionate remedy to address this concern. The CMA concluded that the transaction may not be expected to operate against the public interest on broadcasting standards grounds.

On 5 June 2018, the Secretary of State made a statement to Parliament explaining that he agreed with the CMA's findings on public interest grounds and with its finding that undertakings to divest Sky News to Disney or to an alternative suitable buyer could potentially remedy the public interest concerns identified, subject to further discussion with DCMS officials in order to reach agreement on an acceptable form of the remedy.

On 19 June 2018, following the successful conclusion of discussions with DCMS officials, the Secretary of State published updated undertakings offered by 21st Century Fox along with new undertakings offered by Disney for the divestment of Sky News to Disney.

On 12 July 2018, following a period of public consultation, the Secretary of State published final versions of the undertakings offered by 21st Century Fox and Disney and confirmed his acceptance that they address the concerns raised by the CMA with respect to media plurality. 21st Century Fox has now satisfied or waived all regulatory pre-conditions to the 21st Century Fox Offer.

Comcast's offer for Sky

When announced, the Comcast Offer (see further details on page 34) was subject to the satisfaction or waiver of certain pre-conditions, principally being UK and EU regulatory clearances.

On 5 June 2018, the Secretary of State confirmed that the Comcast Offer does not raise public interest concerns, and he would not intervene on public interest grounds. On 15 June 2018, the European Commission unconditionally cleared the Comcast Offer. The Comcast Offer is conditional on the receipt of various other regulatory clearances, the main outstanding one being Irish media merger clearance.

Ofcom's fit and proper decision

On 29 June 2017, under its duty under the Broadcasting Acts to be satisfied that broadcast licensees are fit and proper on an ongoing basis, Ofcom published its decision that Sky would remain a fit and proper holder of UK broadcast licences following the completion of the 21st Century Fox Offer.

On 29 September 2017, the Avaz Foundation issued judicial review proceedings of Ofcom's fit and proper decision, and on 22 January 2018, was granted permission by the High Court to bring its claim. On 19 and 20 June 2018, the main hearing took place and judgment is now awaited.

Forward-looking statements

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

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

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





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

Governance

Portrait Artist of the Year, Series 4

Board of Directors

Key:

-  Audit Committee
-  Bigger Picture Committee
-  Remuneration Committee
-  Corporate Governance and Nominations Committee

 Committee Chairman

 Membership

James Murdoch (45)
Chairman



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

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

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

Jeremy Darroch (56)
Group Chief Executive Officer

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

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

External Appointments: In February 2014, Jeremy was appointed Non-Executive Director of Burberry Group plc, and serves as Chairman of the Audit Committee, a member of the Nomination Committee and Senior Independent Director. He is Chairman of Business in the Community and a Business Member of the National Centre for Universities and Business.

Andrew Griffith (47)
Group Chief Operating Officer and Chief Financial Officer

Appointed: Andrew was appointed as a member of the Board and as Chief Financial Officer in 2008 and became Group Chief Operating Officer in 2016. His current role includes responsibility for Group Strategy, Corporate & Business Development, Group Product, Digital and Supply Chain.

Skills and experience: Andrew joined the Company in 1999 from Rothschild, the investment banking organisation, where he provided financial and strategic advice to corporate clients in the technology, media and telecommunications sector. He held a number of senior financial roles prior to his appointment to the Board.

External Appointments: In March 2014, Andrew was appointed Senior Independent Non-Executive Director of Just Eat plc and from April 2017 to April 2018 served as Interim Chairman. He also Chairs the Audit Committee and is a member of the Nomination Committee. In addition he is a Trustee of Riverside Studios in West London, a registered charity.

Chase Carey (64)
Non-Executive Director

Appointed: January 2013

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

External Appointments: Chase is Chairman and Chief Executive of the Formula 1 Group and Vice Chairman of 21st Century Fox, Inc. He was President, Chief Operating Officer and Deputy Chairman of 21st Century Fox from 2009 to 2015 and Executive Vice Chairman from July 2015 to July 2016.

Tracy Clarke (51)
Independent Non-Executive Director

Appointed: June 2012

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

External Appointments: Tracy is a member of the Management Team and a Director of Standard Chartered. In October 2015 she was appointed Regional Chief Executive Americas and Europe and in March 2018 assumed the additional role of CEO, Private Banking. Tracy is a Board member for England Netball, a co-opted member on the CBBC Board, a member of the Institute of Financial Services, and Fellow of the Chartered Institute of Personnel and Development.



Martin Gilbert (63)
Independent Deputy Chairman

Appointed: November 2011

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

External Appointments: In addition to his role as Co-Chief Executive Officer of Standard Life Aberdeen PLC, Martin is Chairman of the Prudential Regulatory Authority (PRA) Practitioner Panel. Martin also serves as a Non-Executive Director of Glencore plc, from which he has taken a temporary leave of absence which is expected to end in October 2018, and as Senior Governor of the University of Aberdeen.

Adine Grate (57)
Independent Non-Executive
Director



Appointed: July 2013

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

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

John Nallen (61)
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 (50)
Independent Non-Executive
Director



Appointed: November 2011

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

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

Andy Sukawaty (63)
Senior Independent Director



Appointed: June 2013

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

External Appointments: In addition to his role as Chairman of Inmarsat plc, Andy has previously held a number of senior management positions in the telecommunications industry including Chairman of Ziggo NV, a Dutch cable TV and communications company. He has also served as Chief Executive Officer of Sprint PCS (NYSE) and NTL Ltd and held the roles of Chairman of Xyratex (Nasdaq) and Telenet, and Deputy Chairman of O2 plc.

Katrin Wehr-Seiter (48)
Independent Non-Executive Director

Appointed: October 2016

Skills and experience: Katrin is an experienced investment management and finance professional having worked in the private equity industry for more than 17 years. She brings significant knowledge of the European media, communications and technology sector. Prior to joining BIP Investment Partners in 2012, she served as a Principal of global investment firm Permira and Senior Advisor to international private equity firms and corporations, having started her career at Siemens. Katrin was also an independent director of Sky Deutschland AG from 2010 to 2015, prior to Sky taking full ownership of the company.

External Appointments: Katrin is Managing Director of BIP Investment Partners SA and Managing Director/Partner of BIP Capital Partners SA. She is a director of SES SA and serves on the audit and risk committee. Katrin is also a director of several non-listed corporations including Mercateo AG.

Corporate governance report

Chairman's overview

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

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

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

The Board has established arrangements to evaluate whether the information in the Annual Report is fair, balanced and understandable. Further details of these arrangements can be found on page 42. As a result the Board considers the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

During the year we have continued our work in promoting greater and more effective engagement with our shareholders. The Executive Directors meet our investors and analysts and discuss a wide range of topics. As described on page 39, Martin Gilbert and Andy Sukawaty have engaged with shareholders on issues in relation to the 21st Century Fox Offer and Comcast Offer and Tracy Clarke, Chair of the Remuneration Committee, has also engaged on remuneration issues. We will continue to engage with our shareholders over the course of the coming financial year.

James Murdoch
Chairman

Compliance with the UK Corporate Governance Code

The UK Corporate Governance Code ('Code') provides the standard for corporate governance in the UK. The Financial Conduct Authority requires listed companies to disclose whether they have complied with the provisions of the Code throughout the financial year. The Code currently applicable to the Company is the 2016 edition and we are reporting our compliance with that edition.

The Board considers that the Company has complied with the provisions and applied the main principles of the Code for the whole of the year ended 30 June 2018. This section of the Annual Report along with the Directors' remuneration report on pages 46 to 60 and the Directors' report and other statutory disclosures on pages 61 to 67 provide details of how the Company has applied the main principles of corporate governance, in particular those laid down in the Code. The Code can be accessed at www.frc.org.uk

Offers for Sky

Independent Committee

Following the approach by 21st Century Fox on 7 December 2016 with an initial proposal to acquire the fully diluted share capital of the Company that it does not already own, the Board appointed a committee comprising the Independent Non-Executive Directors and Executive Directors (the 'Independent Committee'), all of whom the Board considers to be free from conflicts of interest with regard to the offer. The Independent Committee is chaired by Martin Gilbert and has the authority to exercise all powers of the Board in relation to both the 21st Century Fox Offer and the Comcast Offer (together, the 'Offers'). The Independent Committee, whose members constitute a majority of the Board, are exercising their rights and powers to manage the governance of the Board during this period in the best interests of all shareholders. This includes taking such steps as they consider appropriate to regulate the attendance of Directors connected with 21st Century Fox at meetings of the Board and information they receive relating to the Company that is deemed relevant to the 21st Century Fox Offer or Comcast Offer. This ensures that all matters relevant to the Offers (including matters relating to the future prospects or strategy of the Company) are dealt with by the Independent Committee. These arrangements will continue for the duration of the Offers or until the successful completion of any transaction (the 'Offer Period'). The Independent Committee met on 15 occasions between 1 July 2017 and 30 June 2018.

Developments in relation to the Offers

On 15 December 2016, 21st Century Fox announced that it had reached agreement with the Independent Committee on the terms of a recommended pre-conditional cash offer of £10.75 per share for the fully diluted share capital of the Company which it did not already own (the 'Original 21st Century Fox Offer').

On 27 February 2018, Comcast Corporation announced a possible offer for the Company, and on 25 April 2018 announced a firm pre-conditional cash offer for the Company at an offer price of £12.50 per share for the entire issued and to be issued share capital of the Company (the 'Original Comcast Offer'). As a result of the Original Comcast Offer, the Independent Committee withdrew its recommendation of the Original 21st Century Fox Offer. On 15 June 2018, the final regulatory pre-condition to the Original Comcast Offer was satisfied.

On 11 July 2018, 21st Century Fox and the Independent Committee announced that they had reached agreement on an increased pre-conditional cash offer for the fully diluted share capital of the Company which 21st Century Fox does not already own of £14.00 per share, which included an amount in lieu of a final dividend in respect of the financial year ended 30 June 2018 (the '21st Century Fox Offer'). The Independent Committee recommended the 21st Century Fox Offer given it represented a substantial increase in value relative to the Original Comcast Offer and the Original 21st Century Fox Offer.

Subsequently and also on 11 July 2018, Comcast Corporation and the Independent Committee announced an increased cash offer of £14.75 per share which included an amount in lieu of a final dividend in respect of the financial year ended 30 June 2018 (the 'Comcast Offer'). The Comcast Offer represents a significant increase in value relative to the Original Comcast Offer and the 21st Century Fox Offer and, as such, the Independent Committee withdrew its recommendation for the 21st Century Fox Offer and recommended the Comcast Offer.

On 12 July 2018 21st Century Fox announced that all regulatory pre-conditions to the 21st Century Fox Offer had been satisfied or waived.

On 13 July 2018, the offer document for the Comcast Offer was published and posted to Sky shareholders (and other persons with information rights).

Chain principle

On 12 April 2018, further to the proposed acquisition of 21st Century Fox by Disney, the Takeover Panel Executive ruled that Disney must make a "chain principle" mandatory cash offer for Sky at £10.75 per Sky share following the closing of the Disney acquisition of 21st Century Fox if, at that time, 21st Century Fox had not acquired 100% of Sky shares or Comcast Corporation or another third party had not acquired a majority of the Sky shares. On 13 July 2018 and subsequent to the increased offer by Disney for 21st Century Fox, the Takeover Panel Executive announced that the price payable pursuant to any required chain principle bid would be £14.00 in cash. The Hearings Committee of the Panel will be hearing an appeal of that determination on 27 July 2018.

Leadership

Role of the Board

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

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

The Directors of the Board are selected on the criteria of proven skill and ability in their particular field of endeavour and a diversity of outlook and experience which directly benefits the operation of the Board as the custodian of the business. A full biography of each Director is provided on pages 32 and 33.

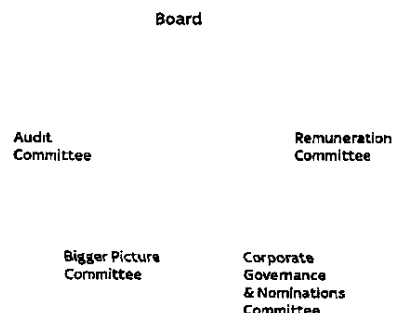
Roles and responsibilities

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

The Chairman

James Murdoch is responsible for leadership of the Board, ensuring its effectiveness on all aspects of its role and setting its agenda. The Chairman is responsible for creating an environment for open, robust and effective debate. This includes ensuring, via the Company Secretary, that the Directors receive accurate, timely and clear information. The significant commitments of the Chairman are detailed in his biography on page 32.

Board and Committee framework



The Group Chief Executive Officer ('Group CEO')

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

Deputy Chairman

Martin Gilbert deputises for the Chairman as appropriate, provides a sounding board to Non-Executive Directors and is an additional point of contact for shareholders. The Deputy Chairman in particular plays a key role in situations where the Chairman has a conflict of interest, such as the current 21st Century Fox Offer and Comcast Offer. During the Offer Period he is acting as Chairman of the Independent Committee and has held a series of meetings with the Company's largest shareholders.

Senior Independent Non-Executive Director

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

Non-Executive Directors

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

Company Secretary

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

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

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

Corporate governance report continued

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 plans;
- The general market and economic outlook;
- The competitive landscape, opportunities and market trends;
- Growth of existing business activities; and
- Existing and new products, services and technological developments.

The members of the Independent Committee have taken steps to ensure that 21st Century Fox affiliated Directors do not receive information relating to the Company that is deemed relevant to the Offers during the Offer Period. As described on page 34, the Independent Committee has the authority to exercise all powers of the Board in relation to the Offers.

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

Board delegation

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

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 24 to 27. 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 40 to 43

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 46 to 60.

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 page 44.

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 45.

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

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

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

Board and Committee attendance

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

	Board	Audit	Remuneration	Corporate Governance & Nominations	Bigger Picture
Number of meetings held in year	5	6	6	1	1
Executive Directors					
Jeremy Darroch, Group CEO	5/5				
Andrew Griffith, Group COO & CFO	5/5				
Non-Executive Directors					
Chase Carey ¹	3/5				
Tracy Clarke ¹	4/5		6/6		1/1
Martin Gilbert	5/5	6/6		1/1	
Adine Grate	5/5	6/6	6/6		
James Murdoch	5/5			1/1	1/1
John Nallen	5/5				
Matthieu Pigasse ¹	4/5	5/6		1/1	
Andy Sukawaty	5/5		6/6	1/1	
Katrin Wehr-Seiter	5/5				

¹ Directors are encouraged to attend Board and Committee meetings but in certain circumstances meetings are called at short notice and due to prior business commitments and time differences Directors may be unable to attend. In these circumstances Directors receive relevant papers and are updated on developments by either the Chairman or Group CEO.

Effectiveness

Board composition and independence

The Board currently comprises 11 Directors, made up of two Executive Directors and nine Non-Executive Directors. A majority of six of the Board of Directors are determined to be independent by the Board in accordance with provision B.1.2 of the Code. Further details are set out in the biographies of each of the Directors which are set out on pages 32 and 33.

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

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

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

Appointments to the Board, diversity and succession planning

The Corporate Governance & Nominations Committee keeps the Board's balance of skills, knowledge, experience and the length of service of individuals under constant review. In respect of succession planning and supplementing the skill set of the Board, there is an established procedure for the appointment of new Directors. In brief, the Committee identifies the set of skills and experience required and, with the assistance of external search agencies, selects individuals to take Board positions on review of their individual merits, regardless of gender, race, religion, age or disability. Further information on the work of the Committee during the year can be found on page 44.

Corporate governance report continued

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

The Board currently comprises eight men and three women (27% female representation on the Board). As required by company legislation, a table on page 62 illustrates gender diversity across the Group as well as at Board level.

Length of time served on the Board

Industry/Background experience

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

Directors' reappointment

In accordance with Code provision B.71, all continuing Executive and Non-Executive Directors will retire and are expected to offer themselves for reappointment at the Company's 2018 AGM.

External directorships

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

Jeremy Darroch was appointed as an Independent Non-Executive Director of Burberry Group plc on 5 February 2014. Jeremy serves as Senior Independent Director, Chairman of the Audit Committee, and a member of the Nomination Committee.

Andrew Griffith was appointed as Senior Independent Non-Executive Director of Just Eat plc on 12 March 2014 and from April 2017 to April 2018 served as Interim Chairman. He also Chairs the Audit Committee and is a member of the Remuneration and Nomination Committees.

Details of pay in respect of these appointments can be found in the Directors' remuneration report on page 51.

Time commitment

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

Induction and training

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

An example of a tailored induction programme is detailed below:

Stage 1	Stage 2	Stage 3	Stage 4
Meetings with Senior Executives, Sky News and Sky Studio visits	Customer contact centre visit	Product demonstrations	Accompanying a Sky engineer on customer visits

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

Board evaluation

In line with the Code, an external Board evaluation was carried out by Alice Perkins of JCA Group in 2016, and an internal Board evaluation was carried out in 2017 facilitated by Andy Sukawaty, the Senior Independent Director. The findings of the evaluation were considered by the Corporate Governance & Nominations Committee and reported to the Board. The overall conclusion was that individual Board members are satisfied that the Board and its Committees work well and operate effectively, in an environment where there is constructive challenge from the Non-Executive Directors. The Directors were satisfied with the current mix of skills and experience and the size of the Board. The Directors noted that appropriate rigour was applied to related party transactions and the 21st Century Fox Offer was a solid example of the Company's governance procedures working well in practice. The allocation of Board and Committee discussion topics has been reviewed and some topics currently discussed in detail at committee level will be brought to the whole Board from time to time. The quality of information presented to the Board was considered to be of a high standard and distributed on a timely basis. The performance of each Director is evaluated as part of the evaluation process, based on self-analysis and input from the other Directors. It is the Board's intention to continue to review its performance and that of its Committees and individual Directors on an annual basis. The next Board evaluation, which will be externally facilitated, will be undertaken during the next financial year should the offer process fall away.

Information provided to the Directors

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

Conflicts of interest

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

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

Directors' and Officers' insurance and indemnity

The Company recognises that all Directors are equally and collectively accountable under the law for the proper stewardship of the Company's affairs. The Company maintains a Directors' and Officers' liability insurance policy. Qualifying third-party indemnity provisions are in place for the Directors in respect of liabilities incurred as a result of their office, to the extent permitted by law. The indemnities applied throughout the financial year ended 30 June 2018 and through to the date of this report.

Relations with shareholders

Shareholder communications

Presentations and webcasts on the development of the business are available to all shareholders on the Company's corporate website. The Company also uses email alerts and actively promotes downloading of all reports enhancing speed and equality of shareholder communication. The Company has taken full advantage of the provisions within the Companies Act 2006 allowing the website to be used as the primary means of communication with shareholders where they have not requested hard copy documentation. The shareholder information section on page 140 contains further details on electronic shareholder communications together with more general information of interest to shareholders which is also included on the Company's corporate website www.skygroup.sky/corporate

Shareholder engagement

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

During the year Tracy Clarke, Chairman of the Remuneration Committee, engaged with certain major shareholders to solicit their views on the Remuneration Policy in advance of any new Remuneration Policy being put to shareholders. In light of the ongoing 21st Century Fox Offer and Comcast Offer, the Remuneration Committee has decided not to put a new Policy to shareholders at the 2018 AGM. Further details are included in the Chairman of the Remuneration Committee's letter, which can be found on page 46.

Since the 21st Century Fox Offer and Comcast Offer, Martin Gilbert and Andy Sukawaty have held a series of meetings with major shareholders to discuss the background to, and reasons for, the Independent Committee's recommendations of each of the Offers.

The AGM

The Board views the AGM as an opportunity to communicate with private investors and sets aside time at the meeting for shareholders to ask questions. At the AGM, the Chairman provides a brief summary of the Company's activities for the previous year. All resolutions at the 2017 AGM were voted by way of a poll. This follows best practice and allows the Company to count all votes rather than just those of shareholders attending the meeting. As recommended by the Code, all resolutions were voted separately and the final voting results, which included all votes cast for, against and those withheld, together with all proxies lodged prior to the meeting, were released to the London Stock Exchange as soon as practicable after the meeting. The announcement was also made available on the Company's corporate website. As in previous years, the proxy form and the announcement of the voting results made it clear that a 'vote withheld' is not a vote in law and will not be counted in the calculation of the proportion of the votes for or against the resolution.

Report of the Audit Committee

Chairman's overview

During the year the Audit Committee has continued to fulfil its key oversight role on behalf of the Board and has remained focused on this role despite the ongoing Offers. 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, including preparations for GDPR, security, internal audit, treasury, taxation, Brexit, customer service and health and safety, as well as regular presentations on business performance.

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

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

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

You can find additional information on 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
Matthieu Pigasse

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

Attendance at Committee meetings

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

Audit Committee agenda

The 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 2017/18 interim dividend
- Liquidity, going concern and viability statement review
- Annual reporting due diligence procedures and corporate governance updates
- Assessment of the effectiveness of the external audit process and scope of audit
- Auditor independence and the policy on the provision of non-audit services by the external auditor
- Quarterly review of non-audit services and fees
- Quarterly reports from the treasury function on the funding, liquidity, going concern and operational capabilities of the Group and compliance with treasury policies
- Quarterly updates on planned internal audit work and on the status of Senior Accounting Officer ('SAO') certification work to ensure SAO compliance
- Quarterly reports of all transactions with a related party during the period
- Quarterly reports on Security matters, including anti-piracy activities, whistleblowing and anti-bribery and corruption matters
- Review of transactions (with the exception of the 21st Century Fox Offer) which fall within the Listing Rule 11.1.5R definition of a 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
- Updates on the Group's data protection programme, including preparations for and implementation of the General Data Protection Regulations ('GDPR')
- Deep dive update on the Customer Service Group function
- Review of Sky Mobile handset financing arrangements
- Monitoring and reviewing the effectiveness of the Group's internal audit function and controls
- Taxation, health and safety and Brexit matters.

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

Critical accounting policies and judgements

When considering the annual financial statements, the Committee reviewed the significant accounting issues and the Group's critical accounting policies as set out on pages 88 to 90 with particular focus on the following:

Retail subscription revenue:

The majority of the Group's revenues derive from retail subscription packages, including hardware and installation services, supplied to customers. The Group applies judgement in determining the accounting allocation of payments received from customers to different elements of the bundled package, taking into consideration the timing and relative value attributed to each element. During the year, the Committee received a quarterly performance report from the Group COO & CFO that included a review of revenues recognised in the period and also considered the future impact of the new accounting standard for revenue (IFRS 15) on the Group's reporting and accounting policies.

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

General entertainment programming inventory.

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

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

Capitalisation of intangible assets and property, plant and equipment:

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

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

Handset financing

The Committee considered the Group's accounting judgements relating to a securitisation facility the Group entered into during the year, which involves the selling of certain handset receivables at a discount.

The Committee considered management's analysis that the Group does not control the securitisation vehicle, based on the vehicle operating within a set of principles that demonstrate it is not under the Group's control, and hence is not consolidated into the Group's financial statements. It considered management's analysis that the Group has transferred substantially all of the risks and rewards of the receivables sold, and as such they have been derecognised from the Group's balance sheet. The Committee also considered the views of the external auditor.

The Committee is satisfied that the Group's accounting judgements are appropriate, and are also disclosed appropriately.

Goodwill impairment assessment

The Committee considered the Group's annual goodwill impairment testing, which involves comparing the recoverable amounts of the cash generating units to which the goodwill is associated with their carrying value.

Calculation of recoverable amount involves estimation by management of future performance and cash flows of those businesses. During the year, the Committee reviewed the Group's budgets and medium-term plans on which those estimates were based and received monthly financial performance updates, which included the results of each of the Group's operating segments. The Committee also considered the report from the external auditor.

The Committee is satisfied that management's conclusions that the Group's goodwill balances are not impaired is appropriate and that the related judgements have been disclosed appropriately.

Internal control and risk management

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

The Committee, on behalf of the Board, considers the effectiveness of the operation of the Group's systems of internal control and risk management during the year and this review has been carried out for the year ended 30 June 2018 and up to the date on which the financial statements were approved. This review includes all material controls and relates to the Company and its subsidiaries and does not extend to joint ventures. The Committee meets on at least a quarterly basis with the Group's Director: Audit, Risk Management and Compliance and the external auditor.

The harmonisation of internal controls across the Group has been an area of focus for the Audit Committee chair who has received regular updates through the year via quarterly meetings with the Director: Audit & Risk Management and regular meetings with the external audit partner.

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

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

Changes in internal controls

No change in the Group's internal control over financial reporting has occurred during the year ended 30 June 2018 that has materially affected, or is reasonably likely to materially affect, the Group's internal control over financial reporting.

Risk management

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

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

The Committee reviews the Group Risk Register typically twice a year and carries out a robust assessment of the principal risks and uncertainties facing the Group and has done so during the year. The Group's principal risks and uncertainties are detailed on pages 24 to 27. There is an ongoing monitoring process, which is operated by the Group Risk team and supported by senior management across the Group, to identify and report to the Audit Committee on significant changes or new risks.

Effectiveness of internal audit process

The Committee also reviews the effectiveness of the internal audit function on an annual basis which includes consideration of their understanding of the business, scope of the audit coverage, resource levels and resolution of recommendations. This review has been carried out for the year ended 30 June 2018 and the Committee determined that internal audit operated effectively.

Committee evaluation

An evaluation of the Committee's performance is conducted as part of the Board evaluation process. Further details are described on page 38.

Fair, balanced and understandable assessment

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

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

Viability statement

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

The Committee sought management's input to its assessment of the viability of the Company and the Group. The assessment, which was based on the Group's operating, capital and funding plans, also included consideration of the principal risks which could impact the performance of the Group and its liquidity and capital projections over the period. The Committee was satisfied that the viability statement could be provided and agreed that three years was a suitable period of review. The Viability Statement is detailed on page 27.

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 2018, the Committee reviewed audit independence and the scope of non-audit services and independence safeguards with Deloitte LLP ("Deloitte"), the Group's external auditor.

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

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

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

During the current year, the Group has continued to substantially reduce the level of Deloitte's non-audit work. Deloitte has been involved in certain strategic customer and operating systems projects since their inception and has specialist knowledge which it would be time consuming and costly to build up with another advisor. The Committee therefore approved a certain level of permitted consulting advisory services with respect to these strategic projects for the current year, and has approved the continuation of this work at a further reduced level in the year ending 30 June 2019. Non-audit fees declined very significantly over this four-year period, from a peak of £15.8 million in 2014/15 (pro-forma basis spend of £19.5 million) to a level below that of the audit fee in the current year (excluding any non-audit fees incurred as a consequence of the Offers), and will continue to reduce the level of non-audit fees.

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 5 to the consolidated financial statements.

Audit and non-audit services

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

- Those services which the auditor is not permitted to provide;
- Those services which are acceptable for the auditor to provide and the provision of which has been pre-approved by the Committee, and
- Those services for which the specific approval of the Committee is required before the auditor is permitted to provide the service, which includes those over £250,000.

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

The policy is reviewed at least every three years and an analysis of all services provided by the external auditor is reviewed by the Committee on a quarterly basis.

During the year, the following examples of non-audit work were deemed to be pre-approved in accordance with the policy.

- Assurance of Gender Pay Gap reporting
- Regulatory audit of the Sky pension plan

As previously stated the Committee was satisfied throughout the year that the objectivity and independence of Deloitte was not in any way impaired by the nature of the non-audit related services undertaken during the year.

Effectiveness of external audit process

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

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

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

The Committee therefore recommended to the Board that shareholder approval be sought to reappoint Deloitte as the external auditor for the 2018/19 financial year.

Audit firm and partner rotation

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

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

The Company and the Group confirms its compliance with the provisions of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 for the year to 30 June 2018.

Corporate Governance & Nominations Committee

Chairman's overview

During the ongoing Offers it is important to ensure the stability of the Board and I am pleased to report that there have been no Board changes during the year. The Committee continues to keep the composition of the Board under review.

The Independent Committee has functioned well and has ensured that the appropriate governance structure is in place to protect independent shareholders. These arrangements will continue for the duration of the Offer Period.

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

There was one Committee meeting held during the year after which I reported to the Board on the key issues discussed during the meeting.

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

Andy Sukawaty
Committee Chairman

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

Attendance at Committee meetings

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

Corporate Governance & Nominations Committee agenda

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

- Board and Committee composition
- Review of Non-Executive Director Independence
- Review of Directors' conflicts of interest
- Review of the Corporate Governance Report

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

Activities during the year

Board changes

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

Due to the ongoing Offers, the Board has remained stable during the year. There remain 11 Directors on the Board, of which six Directors are deemed by the Board to be independent.

Committee composition

During the year, the Committee reviewed the composition of the Board Committees and agreed that during the Offer Period the membership of the Committees would remain unchanged.

Independence

During the year, all Non-Executive Directors were asked to complete questionnaires to enable the Committee to determine their independence. The Committee reviewed the questionnaires and recommended to the Board that there be no changes to the independent status of the current Independent Non-Executive Directors. The Non-Executive Directors who are considered by the Board to be independent are clearly identified in their respective biographies on pages 32 and 33.

As noted on page 37, James Murdoch, Chase Carey and John Nallen are not considered to be independent within the meaning of the Code. However, following the evaluation the Committee considers that each of these Directors continue to make a significant contribution to Board and Committee discussions.

Board diversity

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

Directors' conflicts

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

Bigger Picture Committee

Chairman's overview

I am pleased to report that there has been continued significant progress across the Bigger Picture this year. We celebrated the success of Sky Academy Studios which has welcomed over 100,000 young people through the doors, opening up the behind the scenes world of television and inspiring interest in some important issues. There was also the announcement of the Company's commitments across Sky Ocean Rescue, set out further in this report, and the significant progress made towards these. Our commitment to sustainability has been reflected by our inclusion in a number of leading investor indices, including: the Dow Jones Sustainability Index, in which we maintained our silver award, and CDP's Supply Chain Leadership board. The Committee believes that the focus and scale of the Bigger Picture continues to make a significant contribution to the Company's ability to build a better business for the long term. A refreshed strategy during this financial year is making an even greater impact for customers, the environment and for the Company and is an important way in which Sky is achieving its purpose and values.

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

Progress against the Bigger Picture strategy is detailed at www.skygroup.sky/corporate/bigger-picture

James Murdoch
Committee Chairman

Composition of the Committee
James Murdoch (Chairman)
Tracy Clarke

Attendance at Committee meetings

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

Bigger Picture Committee agenda

Focus for the year has centred on the following items.

- Progress on responsible business performance
- Progress on initiatives to inspire young people and inspire others to take action
- The launch of the evolved Bigger Picture strategy

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

Activities during the year

The Committee was updated on a number of developments in relation to the Bigger Picture during the year, as set out below.

The Committee noted the progress being made on expanding and implementing the Group responsible business strategy in Germany, Austria and Italy and also reviewed progress on responsible sourcing and human rights, including the launch of the Company's second Modern Slavery Statement.

The Committee supports the Company's focus on inclusion and the ambition to build an inclusive culture for everyone. To achieve this the Company has been focused on increasing the representation of BAME (Black, Asian, and minority ethnic) employees and achieving gender parity, including setting ambitious targets such as increasing the representation of women in senior leadership to 50% by 2020. A range of initiatives have been developed, for example 'Get into Tech' and Women in Home Service, which support women to develop skills in traditionally under-represented areas. The Company has been recognised externally for these programmes with inclusion in the Times Top 50 Employers of Women and being awarded the Business in the Community Gender Equality Game Changer Award. The Committee also reviewed the Company's first Gender Pay Gap report, published in March 2018.

The Committee is proud of the Company's continued success in supporting young people, with the launch of the Sky Ocean Rescue scholars and Sky Women in Technology scholars during the year. These scholarships offer young people a unique combination of financial support, personal development, learning, mentoring and practical experience of the world beyond their existing areas of expertise. Sky Academy Studios in London, Livingston and Milan saw 26,679 young people create news reports this year, now reaching over 100,000 young people since its 2013 launch. This year, 4% of employees volunteered with Sky Academy Studios or took part in a beach clean for Sky Ocean Rescue. Progress continues to be made in Italy to support young people through Ultima Ora, supporting media literacy through the Sky Academy Studios programme in Milan.

The Company's long standing charity partner MAMA Youth continues to offer training and career opportunities in broadcast and production for young people from diverse and challenging backgrounds from our West London Campus, with over 90% of alumni going on to secure work placements.

Sky made four significant commitments through Sky Ocean Rescue during the year:

- to transform the Company's own business operations and products to become single-use plastic free,
- to use the Company's voice to inspire others to take action;
- to protect the health of our oceans through working in partnership with WWF; and
- to inspire innovations that can help tackle plastic waste blighting the world's oceans.

The Committee discussed the Company's progress on these commitments, including the significant reduction in plastic use across the business and the objective that all new products launched from 2018 are to be single-use plastic free. The launch of Sky Ocean Ventures, the £25 million impact innovation fund, and the reach that Sky Ocean Rescue had achieved, with millions of people having become aware of the issue of ocean plastic through campaigns such as #PassOnPlastic, were also discussed.

The Committee has participated in the evolution of the Bigger Picture strategy and supports its aim to be an inspirational business, inspiring young people, and others to take action on the issues that matter to everyone. As part of a review of the Bigger Picture reporting, the Committee continued to note the positive economic, social and environmental contribution of Sky and looks forward to the further development of opportunities they will bring. For more information about Sky's approach and progress during the year, go to skygroup.sky/corporate/bigger-picture.

Directors' remuneration report

Annual statement from the Chairman 2018

Dear Shareholder

On behalf of the Board I am pleased to present our Directors' Remuneration Report for the year ended 30 June 2018.

In my last statement I said that should the Offer process fall away we would present a new remuneration policy for approval at the 2018 AGM, and during the year the Committee sought the views of our shareholders on some potential key structural changes to our policy.

However, given that the Offer process has yet to reach a conclusion and taking into account shareholder feedback, the Committee has decided that it would not be appropriate to present a new policy for approval unless the Offer process is unsuccessful. In this event a new remuneration policy will be presented for approval at the 2019 AGM.

In the meantime, the Committee does intend to implement some changes immediately for the 2018/19 performance year that we believe will be welcomed by our shareholders.

Context and business performance

2018 has been a strong year of delivery against our key drivers of performance, despite a general squeeze on household disposable income in every market in which we operate and little growth in the wider TV advertising market across Europe:

- Revenue grew by 4.1% to £13.6 billion¹
- Operating profit increased by 7% to £1,614 million¹ and operating cash flow was £1,137 million¹
- Our Established business EBITDA grew by 11% to £2.5 billion, and by 9% to £2.3 billion including our Investment business
- EPS grew by 11% to 69.2p
- We added over 510,000 new customers, taking the total customer base above 23 million for the first time
- Our customers bought 3.1 million new paid-for products, taking the total product base to almost 63 million

The business has also continued to build for the future:

- Secured a significant set of exclusive sports rights in each of our major territories, including Serie A, UEFA, Premier League, German and Austrian Bundesliga, and Formula 1
- Agreed new partnerships including Netflix, BT Sport, Mediaset Premium, and Spotify

¹ This is an adjusted measure, performance is measured on an adjusted basis using methodology agreed by the Remuneration Committee, which may differ from the adjusted measures presented elsewhere in this report. Revenue growth is presented on a constant currency basis only.

- Sky Q now installed in 3.6 million homes across our major territories, enabling roll-out of new innovations including increased personalisation, expanded voice search functionality and a doubling in UHD content. Customers in Italy are now able to access a broader range of services with the launch of Sky over DTT and fibre, and in Germany and Austria we have comprehensively upgraded all services for our customers, kick-starting our next phase of growth there

- We've expanded into new markets with launches in Spain and Switzerland

Over the past ten years to 30 June 2018, cumulative Total Shareholder Return (TSR) growth was 324% compared to 99% for the FTSE 100. Over the past three years revenue has increased by 15%, Established business EBITDA by 19%, and earnings per share by 20%

Pay for performance outcomes

Our current remuneration policy focuses senior management on driving the performance of our business. The consistency with which we have adhered to the principles we have set for remuneration has served our shareholders well, particularly during this time when it has been critical for the senior management team to focus on the key priorities.

Pay outcomes continue to be linked directly to the achievement of the stretching performance targets which are the key drivers of our performance.

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

Salaries

- Base salaries for the Group CEO and Group COO & CFO were increased by 3.0% on 1 July 2018 in line with the general increase range for our employees, with increases of 3.5% for exceptional performance and 10%+ for promotions and market adjustments.

Annual bonus

- A combination of very strong outperformance against our stretch target for operating profit, and good revenue growth and operating cash flow performance against stretch targets, resulted in overall achievement of 90% of maximum for the Group CEO and the Group COO & CFO

Co-Investment Plan (CIP)

- Matching shares under the 2015 Co-Investment Plan vested at 1.4 times out of a maximum opportunity of 1.5 times, or 93%, with average annual EPS growth over the three-year period of the Plan at 7.3%, which is just short of the maximum.

Long Term Incentive Plan (LTIP)

- There is no LTIP vesting due in 2018. Subject to the outcome of the Offer process, the next LTIP vesting will be in July 2019 for the performance period 2016 to 2019.

Remuneration policy review

The Committee was pleased to receive 94% support from shareholders for the policy at the 2017 AGM. Its strong link between pay and performance and focus on our key strategic priorities provides good alignment between Executive Director and shareholder interests.

Having listened to the feedback from shareholders over the past 12 months, the Committee intends to make a number of changes which will simplify the policy and further strengthen alignment with shareholder interests. The following changes will apply for the 2018/19 performance year:

- Mandatory deferral of 50% of the earned annual bonus for 2018/19 into shares for two years
- Disclosure of performance targets immediately following the end of the performance period, commencing with the 2018/19 annual bonus

We intend to present key structural changes for approval at the 2019 AGM for approval should the Offers from 21st Century Fox or Comcast fail to complete or otherwise fall away in sufficient time, to be implemented for the 2019/20 performance period onwards;

- Removal of the Co-Investment Plan, incorporating its value into a single Long Term Incentive Plan. The Committee therefore intends that LTIP and CIP awards normally due to be granted in July 2019 would be deferred until after the 2019 AGM, at which point awards under the new combined Plan would be granted
- Move from bi-annual vesting to annual vesting for the LTIP
- A holding period of two years following the end of the performance period for the LTIP

Until then the existing policy will apply, providing continuity and stability for the Executive Directors and the senior management team

Share awards vesting

There is no LTIP vesting due this year; the 2016 and 2017 LTIP awards are due to vest in 2019.

Should the ongoing Offer process complete prior to normal vesting dates for outstanding CIP and LTIP awards, the Committee will determine the vesting conditions on the completion date taking into account the circumstances at that time including discussions with the offerors and the interests of the business, employees and shareholders

Future share awards

Awards will be granted as normal in July and August 2018 under the current LTIP and Co-Investment plans, subject to the timing of the Offer process. The performance conditions for the LTIP award are unchanged with the exception of relative TSR performance which the Committee concluded in the light of the ongoing Offer process is no longer a fair measure of the Company's performance due to the effective distorting impact of the share price. The LTIP award will therefore vest based solely on the operational metrics of revenue growth, operating cash flow and EPS growth, which the Committee believes are no more difficult nor easier to achieve than the TSR conditions were intended to be in the absence of the Offer process

These awards will vest either at the end of their normal performance period, or, as above, the Committee will determine the vesting conditions on the completion date taking into account the circumstances at that time.

Execution of the existing remuneration policy

The Committee has implemented the existing remuneration policy throughout the year without change.

Activity in the coming year

The Committee will continue to monitor developments on corporate governance including proposed changes to the Corporate Governance Code and implementation of the CEO Pay Ratio. Activity for the coming year will be shaped by the outcome of the Offer process for 21st Century Fox and Comcast. Should the Offers not complete the Committee is committed to implementing the changes to policy set out above in time for the 2019 performance year and the 2019 AGM.

Tracy Clarke
Committee Chairman

Directors' remuneration report

Our performance at a glance

We maintain lower levels of fixed pay relative to the market, believing that a high ratio of variable to fixed pay provides a strong link between pay and performance and delivers strong returns for our shareholders. We believe this structure has worked well during the prolonged period of uncertainty caused by the 21st Century Fox Offer and the Comcast Offer, encouraging our executives to focus on the delivery of the business plan

Strong alignment with shareholders is critical

Over the last nine financial years, Sky has outperformed the FTSE 100 by 60%. In light of the 21st Century Fox Offer no dividends were paid in the 2017 financial year and no final dividend has been proposed for 2018 at this stage, due to the Offers from 21st Century Fox and Comcast both including an amount in lieu of a final dividend. Using interim dividends as a proxy, dividends increased by 74% over this period.

Shareholding guidelines exceeded by CEO and COO & CFO

Performance overall 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.

¹ This is an adjusted measure, performance is measured on an adjusted basis using methodology agreed by the Remuneration Committee, which may differ from the adjusted measures presented elsewhere in this report. Revenue growth is presented on a constant currency basis only

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 and focuses our executives on the business outcomes. The average fixed/variable ratio over two years was 12%/88% for the Group CEO and 14%/86% for the Group COO & CFO. There was no LTIP vesting in 2018, so total remuneration is lower this year than in 2017.

The charts show the single figure remuneration for 2017 and 2018. See page 55 for further details.

Directors' remuneration report

Our remuneration policy

This section provides a summary of the Directors' remuneration policy that was approved by shareholders at the 2017 AGM. The full policy is available on our website at skygroup.sky/corporate/articles/annual-report-2017. Ordinarily the policy would be in effect for three years until 2020, but the Remuneration Committee has committed that should the 21st Century Fox Offer and the Comcast Offer fall away a new policy will be introduced for approval by shareholders at the 2019 AGM.

Executive Directors

Element and link to performance	Summary of current policy	Changes in the year ahead and beyond
Base salary attracts and retains Executive Directors taking account of personal contribution and size of the role.	Reviewed annually, and takes into account factors such as market pay levels for the role, individual and business performance, experience, size and scope of the role and relativity compared to other roles in the business. There is no maximum base salary but any increases will be in line with our policy and practice for all employees.	Group CEO: £1,097,610 (3.0% increase) Group COO & CFO: £691,057 (3.0% increase) Both effective 1 July 2018
Pension and benefits are provided as part of a competitive total remuneration package.	Employer contributions to the pension scheme or an equivalent cash supplement (or a combination thereof) are capped at around 16% of base salary. Executive Directors are entitled to a range of benefits including, but not limited to, private medical insurance, life assurance, company car allowance and relocation allowances. Benefits provided to Executive Directors are broadly in line with those offered to all employees.	Effective 1 July 2018 Dependents' Death in Service Pension has been removed and replaced with an additional 4x life cover. This change applies to all eligible employees across the business.
Annual bonus drives and rewards the delivery of stretching annual performance goals aligned with the Company's overall business strategy.	Maximum opportunity is 200% of base salary. Performance is assessed against a combination of operational and financial objectives which are determined by the Remuneration Committee at the start of the year, along with the weighting of each measure. The maximum weighting for any one measure is 40%. The Committee believes the concept of threshold, target and maximum compromises our focus on delivery and drive for growth so we set one clear and ambitious stretch target for each performance measure every year. The Committee exercises its judgement on the level of bonus payable for outcomes short of maximum and in exceptional circumstances will use its judgement to adjust bonus outcomes up or down to ensure alignment of pay with performance and with shareholder interests, within the policy maximum. Awards are subject to clawback for a period of two years after payment in cases of gross misconduct and misstatement of results.	The Committee intends that subject to the outcome of the Offer process, from the 2018/19 performance year there will be mandatory deferral of 50% of the earned bonus into Sky shares for two years.
Co-Investment Plan (CIP) encourages personal investment and shareholder alignment; rewards long-term focus and performance achievement.	Executive Directors may voluntarily invest up to half of their earned annual bonus in the Company's shares. These investment shares are matched on a gross basis by up to 1.5 shares for every 1 share invested based typically on a financial measure such as EPS performance over a three-year period. There is no vesting of the matching award if performance is below threshold. The maximum annual award is 150% of base salary. Matching share awards are subject to clawback for a period of two years after vesting in cases of gross misconduct and misstatement of results.	No change for 2018 The Committee intends that subject to the outcome of the Offer process from the 2019/20 financial year CIP will be removed and its value incorporated into the LTIP.

Directors' remuneration report – Our remuneration policy continued

Element and link to performance	Summary of current policy	Changes in the year ahead and beyond
Long Term Incentive Plan (LTIP) rewards longer-term value creation and aligns Executive Directors' interests with those of shareholders.	<p>A fixed number of shares are granted annually, to delink the award from increasing automatically with salary adjustments.</p> <p>Awards are made in Year 1 and in Year 2 with vesting of both awards at the end of Year 3, based on stretching performance over the three-year period. This means that vesting of awards occurs every other year, with zero vesting in between.</p> <p>Awards are reviewed annually. A typical annual award to the Group CEO is 600,000 shares, with a maximum award level of 900,000 granted in exceptional circumstances.</p> <p>100% of the shares vest when the performance criteria are met in full. 26% of the award vests if threshold performance is met.</p> <p>Performance measures are typically a mix of operational measures and relative TSR. Previous operational measures include EPS, operating cash flow and revenue growth. The weighting may vary but is typically 70% operational measures and 30% relative TSR.</p> <p>Unvested awards lapse immediately in instances of gross misconduct, and all awards are subject to clawback for a period of two years after vesting in cases of gross misconduct and misstatement of results.</p> <p>The Committee may also use its discretion to withhold or vary downwards unvested awards typically in the event of the material misstatement of the results or actions resulting in material reputational damage to the business.</p>	<p>Subject to the outcome of the Offer process, the Committee intends that from the 2019/20 financial performance year the LTIP and CIP will be combined into one new Plan, with annual vesting and a two-year holding period post-vesting.</p> <p>The new Plan will be put to shareholders at the 2019 AGM for approval. Awards under the current LTIP are normally made in July of each year. There will be no award in 2019 until after the approval of the new Plan at the 2019 AGM.</p>

Remuneration of the Chairman and Non-Executive Directors

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

Element and link to performance	Summary of current policy	Changes in the year ahead
Fees reflect individual responsibilities and membership of Board Committees. Attract Non-Executive Directors with the skills and experience required to oversee the implementation of strategy.	<p>Reviewed annually, with the Chairman's fees determined by the Corporate Governance & Nominations Committee. Fees are as follows:</p> <p>Chairman (all inclusive) – £410,000</p> <p>Deputy Chairman – £30,000</p> <p>Board member (base fee) – £66,215</p> <p>Additional fees for additional responsibilities:</p> <p>Senior Independent Director – £40,000</p> <p>Chairman of Committee – £25,000</p> <p>Member of Committee – £10,000</p> <p>Non-Executive Directors can elect to receive a portion of their fees in the Company's shares, which are purchased on a monthly basis. Directors who are deemed to be affiliated with 21st Century Fox are not permitted to take part in this facility.</p>	<p>Chairman (all inclusive) – £422,300 (3.0% increase)</p> <p>Board member (base fee) – £68,200 (3.0% increase).</p> <p>Effective 1 July 2018</p>
Benefits may be provided for business purposes.	<p>Benefits for business purposes may be provided, such as the provision of a car to travel to/from meetings.</p> <p>Non-Executive Directors are eligible to receive a Sky subscription package, but are not eligible to join Sky's pension plan.</p>	No change.

Additional policy information

Shareholder alignment

The Committee seeks shareholders' views during the year, at the AGM, through shareholder meetings and through correspondence. We engaged with our major shareholders throughout 2018 to solicit their views on our remuneration policy review, gaining useful comment and insight, which helped inform the proposals outlined in the Chairman's statement on page 46. The Committee intends to implement the proposals in 2019 and they will be put to shareholders at the 2019 AGM should the 21st Century Fox Offer and the Comcast Offer fall away.

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

Pay scenario analysis (updated for 2018)

The charts below provide an estimate of the awards that could be received by our Executive Directors under the remuneration policy effective from the 2017 AGM showing:

- Minimum: base salary as at 1 July 2018 plus pension and benefits as per the table on page 55 (fixed pay)
- Maximum: fixed pay plus maximum awards for annual bonus (200% of base salary for the Group CEO and 150% for the Group COO & CFO)
- Co-Investment Plan (maximum deferral of 50% of the annual bonus into investment shares and full vesting of 1.5x matching shares) and Long Term Incentive Plan (600,000 shares for the Group CEO and 350,000 shares for the Group COO & CFO)

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

Awards under the LTIP are made annually but vesting occurs only every two years. The impact of this vesting cycle on actual realised pay is shown in the nine-year single figure remuneration table for the Group CEO on page 56.

Shareholding guidelines and share ownership

The Committee recognises the importance of aligning Executive Directors' and shareholders' interests through executives building up a significant shareholding in the Company. The shareholding requirements are 3x base salary for the Group CEO and 2x base salary for the Group COO & CFO, and both Executive Directors comply with these guidelines. Executive Directors are required to build up their shareholding to the required levels within five years. There are no shareholding guidelines for Independent Non-Executive Directors but they are able to participate in a monthly share purchase plan. See page 58 for further details on Directors' interests.

How the Remuneration Committee exercises discretion

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

These include but are not limited to:

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

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

External appointments

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

Jeremy Darroch became a Non-Executive Director of Burberry Group plc in February 2014, and serves as Senior Independent Director, Chair of the Audit Committee and a member of the Nomination Committee. For the period 1 July 2017 to 30 June 2018, Jeremy earned £137,000 in this role.

Andrew Griffith became a Non-Executive Director of Just Eat plc in March 2014, and serves as Senior Independent Director, Chairman of the Audit Committee and as a member of the Remuneration and Nomination Committees. For the period 1 July 2017 to 30 June 2018, Andrew earned £88,750 in this role.

Scenarios are modelled assuming a share price of £13.53 which is the average share price over the period 1 April to 30 June 2018 with no allowance for share price appreciation.

Directors' remuneration report

Annual remuneration implementation report

This section sets out how our remuneration policy was implemented during the year ended 30 June 2018 and how it will be implemented for the coming year. It also sets out the link between Company performance and Executive Directors' remuneration, the context in which our policy operates, details on our Executive Directors' shareholdings and the general governance of Directors' remuneration. In the event that the 21st Century Fox Offer or Comcast Offer are withdrawn or lapse the Remuneration Committee will submit a new policy for shareholder approval at the 2019 AGM

What are our variable pay outcomes for this year?

This has been a strong year of delivery against our key drivers of performance despite a general squeeze on household disposable income in every market in which we operate and little growth in the wider TV advertising market across Europe. Senior management has remained focussed on the business despite the uncertainty over the prolonged Offer process for Sky.

Annual bonus for 2018 performance

The annual bonus drives the achievement of annual financial and operational business goals. The plan for 2018 for Executive Directors and senior executives was based on three equally weighted measures which were identified by the Committee as being key indicators of performance, driving growth for our business and returns to our shareholders:

- Revenue growth¹
- Operating profit¹
- Operating cash flow¹

The Committee sets one clear stretch target for each performance measure each year, providing a clear focus on growth and taking into account the business plan and consensus analyst forecasts. Stretch targets 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.

We believe that applying an alternative approach of threshold, target and maximum performance would compromise the drive for growth. Performance is measured on an 'adjusted' basis, as reported externally, in order to capture underlying performance

The table below sets out the Committee's assessment of performance versus the three measures for the last performance period. The Committee will apply its judgement to assess the level of bonus if a stretch target is not met, taking into account personal performance, the performance of the other measures, the underlying performance of the business, and other factors which the Committee considers to be material to the results achieved. Payments are earned in direct correlation to performance achieved.

Annual bonus metrics

Performance measure	Weighting	Performance	Achievement against performance measures
Revenue growth ¹	33%	+4.1%	Underperformance vs stretch target
Operating profit ¹	33%	£1,614m	Outperformance vs stretch target
Operating cash flow ¹	33%	£1,137m	Slight underperformance vs stretch target

In total the business achieved 90% of its operational stretch targets, with very strong outperformance against the operating profit stretch target and good revenue growth and operating cash flow performance against stretching targets. The Committee therefore decided to pay the Executive Directors 90% of maximum, equivalent to 180% of base salary for the Group CEO and 135% for the Group COO & CFO.

The Committee believes 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; after due consideration the Committee has typically made retrospective disclosure two years after the end of the performance period. The Committee has carefully considered the views of shareholders and has decided, subject to the outcome of the 21st Century Fox Offer and Comcast Offer process, to publish targets immediately following the end of the performance period commencing with the 2018/19 annual bonus.

Vesting of shares under the Co-Investment Plan (CIP) 2015-2018

Under the terms of the CIP offered on 28 August 2015 for the performance period 1 July 2015 to 30 June 2018, Executive Directors voluntarily deferred 50% of their earned 2015 bonus into investment shares which were then matched by the Company up to 1.5 times the gross equivalent of their investment.

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

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

*ie on equivalent gross basis

The average adjusted basic EPS growth rate was 7.3% per year over the three-year period. RPI over the same period was 2.8% per year and the Committee agreed that the matching shares under the 2015 CIP will vest at 1.4 times on 28 August 2018, which is 93% of the maximum.

1 This is an adjusted measure, performance is measured on an adjusted basis using methodology agreed by the Remuneration Committee, which may differ from the adjusted measures presented elsewhere in this report. Revenue growth is presented on a constant currency basis only.

Executive Long Term Incentive Plan 2016–2019

There was no LTIP vesting in 2018. Subject to the outcome of the ongoing 21st Century Fox Offer and Comcast Offer, the next vesting of awards made under the terms of the LTIP will occur on 29 July 2019 for the three-year performance period 1 July 2016 to 30 June 2019, for awards made in 2016 and 2017.

Should the ongoing 21st Century Fox Offer and Comcast Offer process complete prior to normal vesting dates for outstanding CIP and LTIP awards, the Committee will determine the vesting conditions on the completion date taking into account the circumstances at that time including discussions with the offerors and the interests of the business, employees and shareholders.

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

	No. of shares awarded	Grant date	Face value on date of grant	Performance period	Vesting date	Minimum % of shares that can vest	Maximum % of shares that can vest
Long Term Incentive Plan							
Jeremy Darroch	600,000	27.07.17	£5,808,000 ¹	01.07.16 – 30.06.19	29.07.19	0%	100%
Andrew Griffith	350,000	27.07.17	£3,338,000 ¹	01.07.16 – 30.06.19	29.07.19	0%	100%
Co-Investment Plan							
Jeremy Darroch	151,706	01.09.17	£1,450,309 ²	01.07.17 – 30.06.20	01.09.20	0%	100%
Andrew Griffith	71,635	01.09.17	£684,831 ²	01.07.17 – 30.06.20	01.09.20	0%	100%

¹ Market price at date of LTIP award was £9.68 on 27 July 2017

² Market price at date of CIP matching award was £9.56 on 1 September 2017

Performance conditions for the Long Term Incentive Plan

Awards made in July 2017 were 'Year 2' nil-cost awards. That is, they relate to the three-year performance period beginning on 1 July 2016 and ending on 30 June 2019. Vesting is subject to the following performance conditions:

1. Operational targets – 70% of the award

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

- EPS growth
- Operating cash flow
- Revenue growth

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

The Committee will make retrospective disclosure of the targets for operating cash flow and revenue growth when they are deemed to be no longer commercially sensitive. This has typically been two years after the end of the performance period though the Committee has decided that subject to outcome of the ongoing Offer process, performance targets will be disclosed immediately following the end of the relevant performance period, commencing with the 2019 performance year.

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

Directors' remuneration report – Annual remuneration implementation report continued

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

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

The top end of the EPS growth range was set for awards in 2016 and 2017 at RPI +5% p.a. This is equivalent to absolute growth in earnings of 26% over three years if RPI is 3% a year. This level of growth in earnings was set at a level which exceeded consensus research analysts' estimates.

2 Relative TSR performance – 30% of the award

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

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

Performance conditions for the Co-Investment Plan

CIP awards made in 2017 are subject to the performance conditions set out in the table below

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

*ie on equivalent gross basis

What did we pay our Executive Directors during the year?

The table below sets out total remuneration received by the Executive Directors for the financial year ended 30 June 2018 and the prior year ended 30 June 2017. The vesting pattern of awards under the LTIP is biennial; shares vest every other year over a three-year performance period. This means that every other year no payment is due as there is no vesting of awards. The following year, assuming performance conditions are met, there will be a payment which covers the equivalent of two years' vesting. There was no LTIP vesting in 2018, so the single figure for 2018 is significantly lower than for 2017, which was a vesting year.

Single figure for Executive Directors' total remuneration (audited)

£	Salary ¹		Taxable benefits ²		Pension ³		Bonus ⁴		Fixed pay and bonus ⁵		Long Term Incentive Plan ⁶		Co-Investment Plan ⁷		Total	
	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
Jeremy Darroch	1,039,650	1,065,641	22,122	21,637	156,930	160,851	1,933,749	1,918,154	3,152,451	3,166,283	11,604,000	n/a	1,355,837	1,790,120	16,112,289	4,956,403
Andrew Griffith	654,565	670,929	24,805	24,128	98,801	101,270	913,118	905,754	1,691,290	1,702,082	6,769,000	n/a	637,384	845,293	9,097,674	2,547,375

- Executive Directors' salaries were increased on 1 July 2017 by 2.5% for the Group CEO and Group COO & CFO. The all-employee pay budget was 2.5%, with increases of 5% for outstanding performance and 10%+ for promotions. Employees earning less than £31,000 received an uplift on the standard increase of a further 0.5% to 1.5% based on performance.
- Taxable benefits include company car or car allowance, healthcare, provision of tax advice and other expenses incurred in the ordinary course of business which are deemed to be taxable benefits on the individual.
- Pension comprises a cash allowance in lieu of company contributions.
- Bonus shows the full amount earned shortly after the year end in which the performance measures applied, including amounts deferred through the CIP. The payout for the 2017 bonus was 186% of base salary for the Group CEO and 140% for the Group COO & CFO. The figures for 2018 are 180% for the Group CEO and 135% for the Group COO & CFO, which is 90% of maximum. The Executive Directors deferred 50% of their bonus into shares through the CIP in 2017 and it is anticipated they will do so for 2018, subject to the outcome of the Offer process for Sky.
- Fixed pay and bonus is the total of salary, taxable benefits, pension and bonus for 2017 and 2018.
- Long Term Incentive Plan shows the market value of the awards that vested immediately following the end of the relevant performance period. The figure for 2017 is the value for LTIP shares which vested on 25 July 2017 with a share price of £9.67. Previously the value of these shares was estimated using the average share price over the period 1 April to 30 June 2017 of £9.83. No LTIP shares vested for the performance period ended 30 June 2018.
- Co-Investment Plan shows the market value of the matching shares that vested on 1 September 2017 with a share price at that time of £9.56. Previously the value of these shares was estimated using the average share price over the period 1 April to 30 June 2017 of £9.83. No Co-Investment Plan shares have been exercised for the performance period 1 July 2014 to 30 June 2017. It also shows the estimated value of matching shares that are due to vest on 1 September 2018, for the performance period 1 July 2016 to 30 June 2018, using the average share price over the period 1 April to 30 June 2018 of £13.53.

Percentage change in Group CEO's remuneration 1 July 2017 to 30 June 2018

The table below shows the percentage change in Group CEO remuneration from 1 July 2017 to 30 June 2018 compared to the average change for all employees.

	Group CEO % change	All employees % change
Base salary ¹	2.5%	2.5%, with 5% for outstanding performance
Taxable benefits	-2.2%	0%
Annual bonus	-0.8%	0.3%

- Up to 5% for outstanding performance and 10%+ for promotions. Employees earning less than £31,000 received an additional uplift of 0.5% to 1.5% based on performance.

Relative importance of pay spend

The table below shows total employee costs and dividend payments to shareholders for 2017 and 2018.

	2017 (£m)	2018 (£m)
Total employee costs ¹	1,729	1,610
Dividend payments ²	358	224

- Group total including Germany and Italy.
- The 2018 dividend payments figure excludes a special dividend of 10 pence per share, totalling £172 million. This was paid in February 2018 in accordance with the terms of the 21st Century Fox Offer which included a provision that such a payment would be made in the event that the 21st Century Fox Offer had not become effective by 31 December 2017.

Directors' remuneration report – Annual remuneration implementation report continued

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 nine years to 30 June 2018, 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 nine years including bonus payout, LTIP and CIP vesting levels. The table highlights the unique structure of our remuneration policy, in which vesting of LTIP shares occurs every two years rather than the customary 12-month cycle. As our LTIP awards are made as a fixed number, the realised value is purely reflective of delivery against performance measures and any share price growth over this period, keeping it aligned to shareholders' interests.

It should be noted that total remuneration for 2013 includes vesting of the one-off additional LTIP award of 300,000 shares made in 2011 at the time of the then possible News Corporation bid. The average annual total remuneration paid to the Group CEO over this nine-year period, excluding this one-off award, is £9,036,154.

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Single figure of total remuneration	2,678,744	11,133,554	4,550,037 ¹	17,026,982 ²	4,879,590	17,873,503	4,619,283	16,112,289 ³	4,956,403 ⁴
Annual bonus payout against maximum opportunity %	100	100	100	97.5	100	100	100	93	90
LTIP vesting rates against maximum opportunity %	n/a	83	n/a	100	n/a	93	n/a	100	n/a
CIP vesting rates against maximum opportunity %	n/a	n/a	100	100	100	100	100	87	93

1 Includes first year of vesting of CIP introduced in 2010

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

3 Includes valuation of LTIP shares that vested on 25 July 2017 with a share price of £9.67 and CIP matching shares which vested on 1 September 2017 at £9.56, both previously reported using the average share price over the period 1 April to 30 June 2017 of £9.83.

4 Includes valuation of CIP matching shares which are due to vest on 28 August 2018 using the average share price over the period 1 April to 30 June 2018 of £13.53.

Disclosure of performance targets for 2016

The Committee discussed at length its approach to disclosure of performance targets. Its position that early disclosure of targets would be commercially detrimental because of the highly competitive nature of the market in which it operates still holds but it considers that performance targets for the 2016 annual bonus are no longer commercially sensitive. There was no LTIP vesting in 2016 and the 2013 CIP award that vested in 2016 did so based on EPS performance disclosed on page 55 of the 2016 Annual Report

Annual bonus

In setting the bonus targets the Committee gave careful consideration to the business plan and to the research analyst consensus forecasts at the time. The targets and performance (measured on an 'adjusted' basis) for the 2016 annual bonus are shown in the table below.

Performance metric	2015/16		Performance vs Target
	Target	Performance	
Group paid-for products growth	+3.0m	+3.27m	109%
Group operating profit	£1,525m	£1,558m	102%
Group operating cash flow	£1,160m	£1,291m	111%

On the basis of average performance versus target of 107%, the Committee determined that the bonus was paid at 100% of maximum for the Group CEO and for the Group COO & CFO

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

Shareholders approved the renewal of the existing remuneration policy at the 2017 AGM. Following further consultation with shareholders this year the Committee determined that changes to the policy would be put to shareholders for approval at the 2019 AGM should the 21st Century Fox Offer and Comcast Offer fall away. Until then the Committee intends to implement the current policy as summarised on pages 49 to 51 for the year ending 30 June 2019 or until such time as a 21st Century Fox Offer or Comcast Offer completes during this period.

Base salary

Increases for our employees effective 1 July 2018 ranged from 2.5% to 3.5% based on performance, with additional adjustments of 10%+ for promotions and market adjustments. After careful consideration, the Committee decided to make base salary adjustments of 3.0% each for the Group CEO and Group COO & CFO, effective 1 July 2018, which is in line with the performance matrix parameters for our employees. Employees were not consulted over the Committee's decision but the Committee was briefed on the employee pay budget and policy for pay awards

Taxable benefits and pension

Effective from 1 July 2018 the Dependents Death in Service Benefit which provided a surviving spouse or dependent with a pension of 1/3rd of the employee's base salary for life has been replaced with additional life cover of 4x base salary life cover. This change applies to all employees, including the Executive Directors, as part of a strategic review of our benefits package for UK employees.

Annual bonus and Co-Investment Plan

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

We expect that both of the Executive Directors will participate in the CIP for this year, based on their earned 2017/18 annual bonus. The performance conditions for the vesting of shares are as per the details set out on page 54.

The Committee has decided that with effect from the 2018/19 performance year the earned annual bonus will be subject to a mandatory deferral of 50% into Sky shares

Long Term Incentive Plan award

The Committee agreed that Jeremy Darroch would be granted an award of 600,000 shares and Andrew Griffith would be granted an award of 350,000 shares on 27 July 2018. This is the Year 1 award of the 2018–2021 Plan. These awards will normally vest on 27 July 2021 subject to the performance measures being achieved.

The performance conditions for this award are the same as for the 2017 award, as set out on pages 53 and 54, with the exception of relative TSR performance which the Committee concluded in the light of the ongoing Offer process is no longer a fair measure of the Company's performance due to the effective distorting impact of the share price. Awards will therefore vest based solely on operational metrics, which the Committee believes are no more difficult nor easier to achieve than the TSR conditions were intended to be in the absence of the Offer process.

Directors' remuneration report – Annual remuneration implementation report continued

Directors' share interests

As at the end of the financial year, the Group CEO had beneficial ownership of 743,101 shares equivalent to 10.1x base salary and the Group COO & CFO had beneficial ownership of 197,580 shares, equivalent to 4.3x base salary, using the year end closing share price of £14.61. Both Executive Directors currently exceed the shareholding guidelines for Executive Directors as described on page 51.

Interests in Sky plc shares (audited)

	As at 30 June 2017	Change during the year	As at 30 June 2018
Executive Directors:			
Jeremy Darroch ¹	689,871	53,230	743,101
Andrew Griffith ¹	172,445	25,135	197,580
Non-Executive Directors:			
Chase Carey ²	-	-	-
Tracy Clarke	4,246	814	5,060
Martin Gilbert	7,806	1,331	9,137
Adine Grate	29,394	-	29,394
James Murdoch ²	-	-	-
John Nallen ²	-	-	-
Matthieu Pigasse	7,865	1,282	9,147
Andy Sukawaty	4,641	1,089	5,730
Katrin Wehr-Seiter	-	-	-

¹ Interests in shares include shares purchased under the Co-Investment Plan on 1 September 2017 at a price of £9.56

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

³ There have been no changes in the period from 30 June 2018 to 25 July 2018. Any changes between 25 July 2018 and a date not more than one month before the AGM will be included in the Notice of Meeting at the relevant time

Outstanding share awards: Jeremy Darroch (audited)

Date of award	At 30 June 2017	Vested during year	Exercised during year	Lapsed during year	At 30 June 2018	Share price at date of award	Option price	Market price on exercise	Date from which exercisable	Expiry date
LTIP^{1,2,5}										
25.07.14	600,000	600,000	600,000	-	-	£8.74	nil	£9.67	25.07.17	25.07.22
29.07.15	600,000	600,000	600,000	-	-	£11.32	nil	£9.67	25.07.17	25.07.22
29.07.16	600,000	-	-	-	600,000	£9.20	nil	n/a	29.07.19	29.07.24
27.07.17	-	-	-	-	600,000	£9.68	nil	n/a	29.07.19	29.07.24
CIP Matching^{3,4,5,6}										
01.09.14	163,644	141,824	-	21,820	141,824	£8.82	nil	n/a	01.09.17	01.09.22
28.08.15	141,758	-	-	-	141,758	£10.42	nil	n/a	28.08.18	28.08.23
31.08.16	176,110	-	-	-	176,110	£8.64	nil	n/a	31.08.19	31.08.24
01.09.17	-	-	-	-	151,706	£9.56	nil	n/a	01.09.20	01.09.25
Sharesave										
30.09.14	2,139	-	-	-	2,139	£8.82	£7.08	n/a	01.02.20	31.07.20

Outstanding share awards: Andrew Griffith (audited)

Date of award	At 30 June 2017	Vested during year	Exercised during year	Lapsed during year	At 30 June 2018	Share price at date of award	Option price	Market price on exercise	Date from which exercisable	Expiry date
LTIP^{1,2,5}										
25.07.14	350,000	350,000	350,000	-	-	£8.74	nil	£9.67	25.07.17	25.07.22
29.07.15	350,000	350,000	350,000	-	-	£11.32	nil	£9.67	25.07.17	25.07.22
29.07.16	350,000	-	-	-	350,000	£9.20	nil	n/a	29.07.19	29.07.24
27.07.17	-	-	-	-	350,000	£9.68	nil	n/a	29.07.19	29.07.24
CIP Matching^{3,4,5,6}										
01.09.14	76,930	66,672	-	10,258	66,672	£8.82	nil	n/a	01.09.17	01.09.22
28.08.15	66,938	-	-	-	66,938	£10.42	nil	n/a	28.08.18	28.08.23
31.08.16	83,159	-	-	-	83,159	£8.64	nil	n/a	31.08.19	31.08.24
01.09.17	-	-	-	-	71,635	£9.56	nil	n/a	01.09.20	01.09.25
Sharesave										
30.09.14	1,271	1,271	-	-	1,271	£8.82	£7.08	n/a	01.02.18	31.07.18
01.12.17	-	-	-	-	1,196	£9.30	£7.52	n/a	01.02.21	31.07.21

¹ Performance conditions relating to LTIP awards made in 2014 and 2015 are disclosed in the 2015 Annual Report.

² The 2014 and 2015 LTIP awards were exercised and shares subsequently sold on 28 July 2017. The aggregate value received by the Executive Directors on exercise of their 2014 and 2015 LTIP Awards before tax was £18,373,000.

³ The 2014 CIP Matching awards vested on 1 September 2017 on a 1.3x matching basis.

⁴ Dividends are payable on shares purchased through the CIP. During the year the Executive Directors received £215,768 (2017: £52,105).

⁵ Performance conditions relating to CIP Matching Awards can be found on page 54.

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

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

The following table sets out the single figure for total remuneration for the Chairman and Non-Executive Directors for the financial year ended 30 June 2018 and the prior year ended 30 June 2017.

	2018 Total fees ¹	2017 Total fees
Chase Carey	66,215	64,600
Tracy Clarke	111,215	109,600
Martin Gilbert	116,215	114,600
Adine Grate	111,215	109,600
James Murdoch	410,000	400,000
John Nallen	66,215	64,600
Matthieu Pigasse	86,215	84,600
Andy Sukawaty	141,215	140,074
Katrin Wehr-Seiter ²	76,096	56,375

¹ Basic fees were increased by 2.5% from 1 July 2017. Changes to responsibilities and associated fees are set out in full in the 2016/17 Remuneration Report.

² Katrin Wehr-Seiter had taxable travel expenses of £9,881 during the year, which have been 'grossed up' for tax and included in the total fees.

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

	From 1 July 2018 £	From 1 July 2017 £
Chairman (all inclusive fee) ¹	422,300	410,000
Deputy Chairman	30,000	30,000
Board member ¹	68,200	66,215
Additional responsibilities:		
Senior Independent Director	40,000	40,000
Chairman of Committee	25,000	25,000
Member of Committee	10,000	10,000

¹ Fees for the Chairman and Non-Executive Directors were increased by 3.0% effective 1 July 2018.

Payments to past Directors and loss of office

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

Shareholder voting outcomes

The Company engages with major shareholders and institutional investor groups every year to seek their views on remuneration, and the Remuneration Committee ensures that their views are considered carefully prior to making its decisions. At the AGM held on 12 October 2017, 70.99% of shareholders voted in favour of the Directors' Report on Remuneration and 93.76% voted in favour of the remuneration policy.

The Company had engaged with its major shareholders prior to the 2017 AGM on a new policy and explained that given the ongoing 21st Century Fox Offer the prudent approach at the time was to propose a substantially unchanged policy which would enable senior management to continue to focus on the business priorities. This rationale was accepted at the time, as evidenced by the voting outcome.

Since the last AGM the Company has continued to engage with our major shareholders on a new policy should the 21st Century Fox Offer and Comcast Offer process fall away. The proposals have been positively received. The Committee considered feedback on the 2017 Remuneration Report and the views of shareholders on the early vesting conditions for LTIP and CIP in the event of a successful 21st Century Fox Offer as set out in the Co-operation Agreement of 15 December 2016. The Committee's view was that the conditions proposed were proportionate and measured given the particular circumstances at the time. Since then the process has continued and the Committee will consider the most appropriate approach at the time should the 21st Century Fox Offer or Comcast Offer complete, having regard to the interests of the Company, its employees and shareholders.

Resolution	Votes for	% for	Votes against	% against	Total votes cast	Votes withheld
2017 Approval of the Remuneration Report	833,056,357	70.99	340,399,243	29.01	1,173,455,600	9,649,701
2017 Approval of the Remuneration Policy	1,099,069,186	93.76	73,113,237	6.24	1,172,182,423	9,639,886

Directors' remuneration report – Annual remuneration implementation report continued

Membership of the Committee

During the year ended 30 June 2018 the Committee chaired by Tracy Clarke met six times. Tracy Clarke, Adine Grate and Andy Sukawaty are members of the Committee. Attendance during the year is shown on page 37.

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 topics discussed by the Committee, with a key focus throughout the year being on the implications of the Offer process on remuneration programmes and the remuneration policy review.

July 2017	October 2017	December 2017	March 2018	April 2018	June 2018
Performance outcomes for bonus, LTIP and CIP	Update on the reporting season	Review of initial proposals for remuneration policy	Update on the remuneration policy review and shareholder consultation	Update on the remuneration policy review and shareholder consultation	Performance update – bonus, LTIP and CIP
Review and approve performance targets for the 2017/18 annual bonus and LTIP	Update on shareholder feedback and proxy voting service guidance			Update on the reporting season	Update on the 21st Century Fox and Comcast Offers and implications for treatment of share awards
Review and approve remuneration for Executive Directors and Senior Management	Review of timetable for remuneration policy review and shareholder consultation				Update on the remuneration policy review and decisions
Review and approve Directors' Remuneration Report					Update on executive and all employee salary remuneration proposals
					Review of the first draft of the Chairman's statement

Advisors to the Committee

Willis Towers Watson were formally appointed by the Remuneration Committee to act as its independent advisors in July 2013, following a tender process. The Committee reviewed the performance of the advisors in October 2016 and subsequently, following the announcement of the 21st Century Fox Offer, decided to maintain Willis Towers Watson as advisors until the outcome of the Offer process is known. 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 £148,000. Willis Towers Watson also provided Sky with advice during the year on pension within its reward strategy, the operation of its pension and related benefit provisions, and provided support on a project to introduce a banding structure across the UK organisation.

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

The Remuneration Report was approved by the Board of Directors on 25 July 2018 and signed on its behalf by:

Tracy Clarke

Chairman of Remuneration Committee



Directors' report and statutory disclosures

Introduction

In accordance with the Companies Act 2006, the Corporate governance report on pages 32 to 45 and information contained in the Strategic Report on pages 2 to 29 forms part of this Directors' report and are incorporated by reference.

The Directors present their report together with the audited consolidated and parent company financial statements for the year ended 30 June 2018.

Shares

Dividends

An interim dividend of 13.06 pence per ordinary share was paid to shareholders on 23 April 2018. In addition, a special dividend of 10 pence per ordinary share was paid on 9 February 2018, as the 21st Century Fox Offer had not become effective on or before 31 December 2017, making a total of 23.06 pence paid to date during 2018 (2017: nil, 2016: 33.55 pence).

The Comcast Offer and the 21st Century Fox Offer both include an amount in lieu of a final dividend in respect of the financial year ended 30 June 2018, with Comcast and 21st Century Fox each reserving the right to reduce their respective offer prices by some or all of the amount of any dividend (which is announced, declared, paid or becomes payable to Sky shareholders). As a result, the Board is not intending to propose a final dividend at this stage.

Share capital

The Company's issued ordinary share capital at 30 June 2018 comprised one class of ordinary shares. All of the issued ordinary shares are fully paid and rank equally in all respects. Further details of the Company's share capital and share issues under the period under review are disclosed in note 23 to the consolidated financial statements.

Interests in voting rights

Information provided to the Company pursuant to the UK Listing Authority's Disclosure and Transparency Rules ('DTRs') is published on a Regulatory Information Service and on the Company's website. As at 30 June 2018, the Company had been notified under DTR5 of the following significant holdings of voting rights in its shares.

Identity of person or group	Amount owned	Percent of class notified
21st Century Fox UK Nominees Limited ¹	672,783,139	39.14
UBS AG London Branch	120,647,455	7.02

¹ Direct holding

Between 30 June 2018 and 25 July 2018, the Company was notified that UBS AG London Branch's holding had changed to 118,241,436 shares representing 6.88% of total voting rights, and that Société Générale SA held 87,279,452 shares representing 5.08% of total voting rights. There were no other changes notified between 30 June 2018 and 25 July 2018.

The Employee Share Ownership Plan ('ESOP') was established to satisfy awards made to participants of the Company's employee share plans. The trustees of the ESOP have waived the right to dividends payable in respect of the shares held by it, except to the extent of 0.0001% of the dividend payable on each share. At 30 June 2018, the ESOP had an interest in 978,328 of the Company's ordinary shares. The Trustees, who are independent of the Company, have full discretion on how they vote the ordinary shares held by the ESOP.

Voting rights

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

A shareholder entitled to attend and vote at a general meeting may appoint one or more proxies to attend and vote instead of them.

If a member appoints more than one proxy they must specify the number of shares which each proxy is entitled to exercise rights over. A proxy need not be a shareholder of the Company. Holders of the Company's ordinary shares do not have cumulative voting rights. A voting agreement dated 21 September 2005 was entered into between the Company, BSKYB Holdco Inc, 21st Century Fox ('21CF' or '21st Century Fox') and 21st Century Fox UK Nominees Limited which became unconditional on 4 November 2005 and capped 21st Century Fox UK Nominees Limited's voting rights at any general meeting at 37.19%. The provisions of the voting agreement ceased to apply (in accordance with the terms of the voting agreement) on 13 July 2018, being the date on which the Comcast Offer was made to shareholders.

Members of the Independent Committee who own shares in the Company have irrevocably undertaken to exercise all rights attached to their own beneficial holdings of 999,149 shares (representing, in aggregate, approximately 0.058 per cent. of the share capital of the Company in issue at close of business on 25 July 2018) in favour of the 21st Century Fox Offer. The members of the Independent Committee have also undertaken not to exercise, or permit the exercise of, the voting rights attaching to such beneficial holdings of shares in the Company in any manner which would frustrate the 21st Century Fox Offer.

Restrictions on transfer of securities

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

Variation of rights

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

Relationship Agreement

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

21st Century Fox and certain of its wholly-owned subsidiaries, directly or indirectly, exercise or control 39.14% of the voting rights of the Company and are therefore deemed to be controlling shareholders for the purposes of the Listing Rules. Accordingly, the Company entered into a relationship agreement with 21st Century Fox on 13 November 2014 (the 'Relationship Agreement') containing the undertakings required by the Listing Rules.

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

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

Directors' report and statutory disclosures continued

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

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

At the 2017 AGM, the Directors were given authority to allot shares up to a maximum nominal amount of £573,005,742 representing two-thirds of the Company's then issued ordinary share capital. Of this amount, a nominal amount of £286,502,871 (representing one-third of the Company's then issued ordinary share capital) could only be allotted pursuant to a rights issue (the Allotment Authority). The Directors were additionally empowered to allot equity securities in the Company for cash, pursuant to the Allotment Authority, on a non-pre-emptive basis (a) in connection with a rights issue or open offer, (b) (otherwise than in connection with a rights issue or open offer) up to a maximum nominal value of £42,975,430 representing 5% of the Company's then issued share capital, and (c) (otherwise than in connection with a rights issue or open offer) up to a maximum nominal value of £42,975,430 representing a further 5% of the Company's then issued share capital for the purposes of financing a transaction (or refinancing within six months of the transaction) which the Directors determine to be an acquisition or other capital investment contemplated by the Pre-emption Group's Statement of Principles ('Principles'). In line with the Principles, the authority under (b) and (c) was sought in separate resolutions. The Company did not seek authority to buy back its own shares at the 2017 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 2018 AGM will be detailed in the notice convening the AGM at the relevant time

Board of Directors

Board of Directors and their interests

The Directors who served during the year were: Jeremy Darroch, Andrew Griffith, Chase Carey, Tracy Clarke, Matthieu Pigasse, Martin Gilbert, Adine Grate, James Murdoch, John Nallen, Andy Sukawaty and Katrin Wehr-Seiter. The biographical details of the Directors of the Company can be found on pages 32 and 33.

The Directors' interests in the ordinary shares and options of the Company are disclosed within the Directors' remuneration report on pages 46 to 60.

Appointment and retirement of Directors

The Directors may from time to time appoint one or more Directors. Any such Director shall hold office only until the next AGM and shall then be eligible for reappointment by the Company's shareholders. It is the current intention that at the Company's 2018 AGM all continuing Executive and Non-Executive Directors will retire and offer themselves for reappointment in compliance with the Code.

Alternate Directors

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

On the resignation of the appointer for any reason the Alternate Director shall cease to be an Alternate Director. The appointer may also remove their Alternate Director by notice to the Company Secretary signed by the appointer revoking the appointment. An Alternate Director shall not be entitled to fees for their service as an Alternate Director.

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

Employees

Equal Opportunities

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

Diversity and Inclusion

At Sky we aim to be an inclusive employer with a workforce that reflects the communities in which we operate. For more on our approach to diversity and inclusion please see page 12. The table below sets out the gender diversity numbers across the Group.

Employee Engagement

At Sky we listen to our people and encourage everyone to be involved. We know great ideas come from all corners of our business and it is part of our 'believe in better' spirit to harness those ideas for the benefit of our customers and our people. Twice a year we gather feedback from people across all of our territories using an online engagement survey. Overall response rates remain very high (83% in the UK & ROI, 73% in Italy, 78% in Germany) and this year we have seen an increase in overall engagement in the UK & ROI, have maintained high levels of engagement in Italy and have seen a small reduction in Germany & Austria despite a year of change and transformation.

	2017/18 ²				2016/17 ²			
	Male		Female		Male		Female	
Board of Directors ¹	8	73%	3	27%	8	73%	3	27%
Senior managers ³	241	73%	88	27%	189	75%	62	25%
UK & ROI	119	68%	56	32%	89	71%	37	29%
Italy ⁴	27	75%	9	25%	29	81%	7	19%
Germany & Austria ⁵	95	81%	23	19%	71	80%	18	20%
All employees ⁵	19,128	62%	11,481	38%	19,751	63%	11,745	37%
UK & ROI	15,142	65%	8,276	35%	15,461	65%	8,175	35%
Italy ⁴	2,014	51%	1,910	49%	2,415	52%	2,234	48%
Germany & Austria ⁵	1,972	60%	1,295	40%	1,875	58%	1,336	42%

¹ As defined in the Companies Act 2006

² Data is independently assured by Deloitte LLP and can be viewed online at www.skygroup.sky/corporate/bigger-picture

³ Based on headcount. Defined for the purposes of this report as those included in the Leadership Bonus Group which includes members of Sky's executive group. For more information and methodology changes please see the Basis of Reporting on www.skygroup.sky/corporate/bigger-picture

⁴ The number of female employees in Italy decreased in the current year as a result of a change in methodology to exclude agency workers from the calculation as they are not paid by Sky

⁵ The number of female employees in Germany & Austria decreased in the current year due to a change in methodology to exclude employees on parental leave as they are no longer paid by Sky

Employee Involvement & Communication

At Sky we communicate daily with our employees, publishing timely and relevant content about matters affecting our business and our people via the company intranet, today@sky. We also communicate regular business updates through a variety of communication channels, with a full business round-up shared with everyone at Sky at each set of quarterly financial results.

The Sky Forum in the UK & ROI is a group of 96 elected employee representatives empowered to make Sky even better for colleagues and customers. Members meet with the CEO and other senior leaders twice a year to represent their constituents in discussions about the business and the matters that impact them. As well as participating in working groups on

behalf of their constituents they also attend three meetings with their relevant local leadership teams to discuss in more detail the issues and initiatives most relevant to them. The Sky Forum helps leaders better understand the needs of their people and allow Forum members and their constituents to better understand the business

Approximately 12,200 employees choose to participate in our Sharesave Scheme, providing them with an opportunity to save on a monthly basis to buy Sky shares at a 20% discount at the end of a 3 or 5 year savings period. This means a large proportion of our employees share in the success of our business and will benefit from the significant growth our share price has seen over the past 18 months.

Sky UK and Ireland: Progress against target to halve our carbon emissions relative to revenue¹

As outlined on page 12, we are committed to reducing the environmental impact of our business. This year, we have exceeded our 2020 target to halve UK carbon emissions relative to revenue. Our progress against these targets is outlined below. Please see the Bigger Picture Impact Report for more information which is available at www.skygroup.sky

Our carbon emissions performance is a result of our continued investment in the UK, Italy and Germany and Austria to improve efficiencies across the business. We have taken measures such as engaging employees, maintaining and improving energy efficiencies, reducing product waste and investing in renewable energy including district heating.

	Target	2008/09 (Baseline)	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Gross absolute emissions (tCO ₂ e)		105,839	107,294	94,616	92,968	94,420	101,039	97,584	83,940	83,352
Scope 1		20,322	23,098	20,939	20,429	20,633	24,406	24,333	24,496	24,270
Scope 2 (location-based)		85,517	84,196	73,677	72,539	73,787	76,633	73,251	59,444	59,083
Carbon intensity (tCO ₂ e/£m)		20.7	16.3	13.9	12.8	12.4	12.9	11.7	9.8	9.3
Reduction in gross absolute CO ₂ e emissions relative to revenue (%)	50	0	21	33	38	40	37	44	53	55

Sky Group-wide carbon emissions and carbon intensity 2017/18^{1,2}

The disclosures required by law and additional information relating to the Group's greenhouse gas emissions are included in the table below. For full details of calculations and performance, please see our Bigger Picture Impact Report.

	Sky Group	UK & Ireland	Germany & Austria	Italy
Gross absolute carbon emissions (tCO₂e)				
Scope 1	29,961	24,270	2,522	3,169
Fuel combustion (gas, diesel generators, fuel oil, vehicles)				
Diesel	174	126	4	44
Fuel Oil	40	n/a	40	n/a
Gas	5,012	4,674	0	338
Vehicle Fuel	23,430	19,290	2,334	1,806
Operation of facilities (refrigerants)				
Refrigerants	1,305	180	144	981
Scope 2 (location-based)	84,123	59,083	4,419	20,621
Purchased district heating gross (location-based)	713	0	234	479
Purchased electricity (location-based)	83,410	59,083	4,185	20,142
Scope 2 (market-based)	43,101	13,247	2,142	27,713
Purchased district heating (market-based)	713	0	234	479
Purchased electricity (market-based)	42,388	13,247	1,908	27,234
Total (Scope 1 and 2) (location-based) CO₂e (tCO₂e)	114,084	83,352	6,940	23,791
Total (Scope 1 and 2) (market-based) CO₂e (tCO₂e)	73,062	37,516	4,663	30,882
Joint Ventures contribution to total Scope 1 and 2 (location-based) CO ₂ e (tCO ₂ e) ⁴	649	649	n/a	n/a
Carbon Intensity				
Revenue (£m)	13,585	8,931	2,023	2,631
Carbon Intensity (tCO ₂ e/£m revenue)	8.40	9.33	3.43	9.04

1. Independently assured by Deloitte LLP.

2. 2016/17 has been restated to reflect the most up-to-date data set.

3. We measure our CO₂e emissions according to the Greenhouse Gas Protocol, the global standard for reporting greenhouse gas emissions. Our total gross CO₂e emissions include all Scope 1 and Scope 2 location-based emissions, and our market-based emissions are those remaining after emissions from contractual instruments have been applied. Our energy providers retain, on our behalf, the Guarantees of Origin (GOs) and Renewable Energy Guarantee of Origin (REGOs). In addition, we offset our total gross emissions, including Scope 1, Scope 2 and selected Scope 3 emissions, through the purchase of renewable energy investments and Voluntary Carbon Standard offsets.

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

Directors' report and statutory disclosures continued

Other disclosures

Contracts of Significance

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

On 25 July 2014, the Company (and certain of its subsidiaries) entered into various agreements with 21st Century Fox (and certain of its subsidiaries) to effect the acquisition 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.

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.

Significant agreements

The following significant agreements which were in force at 30 June 2018 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, two (2) 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.

In 2018, Sky UK Limited (a Group subsidiary) entered into an agreement (the '2018 PL Licence') with the PL, pursuant to which the Group was awarded four of the seven available Live Packages in respect of the three seasons 2019/20 – 2021/22, together consisting of 128 live matches per season. The PL will not award Live Packages containing in aggregate more than 148 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 '2018 PL Single Buyer Rule'). Pursuant to the 2018 PL Licence, the PL can suspend and/or terminate all of the rights which are included in, or exercisable as part of, two (2) Live Packages containing in the aggregate up to 52 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 2018 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 2018 PL Single Buyer Rule. In addition, in the event that a change of control of the Company occurs at any time prior to the expiry of the 2018 PL Licence, as a result of which either S&P or Moody's downgrade the Company's credit rating below investment grade, the PL can require the Group to nominate a replacement guarantor that has either: (i) a credit rating with S&P or Moody's which is at least investment grade

or (ii) a credit rating with an alternative credit rating agency which is at least investment grade. If the Group fails to nominate a replacement guarantor or fails to nominate a replacement guarantor with sufficient credit rating, the PL can require the Group to provide alternative financial security in place of the guarantor. Upon receipt of such request, the Group may elect at its discretion to provide either (i) a bank guarantee or (ii) accelerated payments under the 2018 PL Licence.

DFL Contract/Bundesliga Rights

In June 2016, Sky Deutschland Fernsehen GmbH & Co. KG entered into an agreement (the 'Bundesliga Agreement 17/21') with DFL in relation to the predominantly exclusive rights to broadcast 572 out of 617 games of the Bundesliga and 2nd Bundesliga (including relegation and Supercup matches). The lack of 45 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

On 13 June 2018, 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 two of three available packages of live audio-visual rights for the Italian Serie A football championship for the seasons 2018/19 – 2020/21 (the three packages are together the 'Live Packages'). These two packages consist of 266 (out of 380) cross platform live matches per season. Pursuant to the relevant provision of the Melandri Decree and ISO, Lega cannot award all of the Live Packages 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 packages assigned to Sky Italia Srl, in the event that a change of control occurs at any time prior to the expiry of the Serie A Licence which, if it had occurred prior to the award of the Live Packages, would have resulted in a breach of the Serie A Single Buyer Rule.

UEFA

On 12 June 2017, each of the two companies (i) Sky Deutschland Fernsehen GmbH & Co. KG (on an exclusive basis for the territory of Germany and on a non-exclusive basis in Liechtenstein and Luxembourg) and (ii) Sky Österreich Fernsehen GmbH (for the territory of Austria) entered into a separate media rights agreement with the Union des Associations Européennes de Football ('UEFA') in relation to certain media rights to broadcast matches of the UEFA Champions League for the seasons 2018/19 – 2020/21 across all distribution means (the 'German/Austrian CL Agreements 18/21'). The German/Austrian CL Agreements 18/21 may be terminated by UEFA on a change of control if at any point during the term of the relevant German/Austrian CL Agreement (i) 21st Century Fox Inc. (together with any of its affiliated companies), and/or (ii) any other entities in which 21st Century Fox Inc. holds directly or indirectly more than 30% of the total shares in the relevant company, should cease to be the single largest direct or indirect shareholder of Sky Deutschland Fernsehen GmbH & Co. KG or Sky Österreich Fernsehen GmbH (as applicable) and such change of control adversely affects the ability of Sky Deutschland Fernsehen GmbH & Co. KG or Sky Österreich Fernsehen GmbH (as applicable) to perform its obligations under the relevant agreement.

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

21st Century Fox voting agreement

On 21 September 2005, the Company, BSKyB Holdco Inc., 21st Century Fox UK Nominees Limited and 21st Century Fox entered into a voting agreement, pursuant to which 21st Century Fox UK Nominees Limited's voting rights at any general meeting are capped at 37.19% (the 'Voting Agreement'). The provisions of the Voting Agreement ceased to apply on 13 July 2018, being the date on which the Comcast Offer was made to shareholders.

Revolving Credit Facility

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

GMTN Programme bond issue

On 3 April 2007, certain Group entities established a euro medium-term note programme which provides the Group with a standardised documentation platform to allow for senior debt issuance in the Eurobond markets. On 7 February 2014, the programme was updated and expanded to become a global medium-term note programme (the 'GMTN Programme'). The GMTN Programme was last updated in October 2016. The maximum potential issuance under the GMTN Programme is £5 billion. On 14 May 2007, the Company issued bonds under the GMTN Programme (then known as an EMTN programme) consisting of £300 million guaranteed notes paying 6.000% interest and maturing on 14 May 2027 (the '2007 Notes'). On 17 November 2015, the Company issued £500 million guaranteed notes under the GMTN Programme paying 2.250% interest and maturing on 17 November 2025 (the '2015 Notes' and, together with the 2007 Notes, the 'GMTN Notes'). Pursuant to the final terms of the GMTN Notes, the Company will be required to make an offer to redeem or purchase the GMTN Notes at the relevant redemption amount plus interest up to the date of redemption or purchase if there is a change of control of the Company or the announcement of a potential change of control (i) which, if the GMTN Notes carry an investment grade credit rating, results in a downgrade to a non-investment grade rating or a withdrawal of that rating, or (ii) which, if the GMTN Notes carry a non-investment grade rating, results in a downgrade by one or more notches or a withdrawal of that non-investment grade rating, or (iii) where, if the GMTN Notes do not carry a credit rating, the Company does not seek such a rating or is unable to achieve such a rating, provided that in each case the decision to downgrade, withdraw or not to award a credit rating occurs within a certain period of time after the change of control and the relevant rating agency cites that such decision(s) resulted from the change of control or the announcement of the potential change of control.

EMTN Programme bond issue

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

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

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

Directors' report and statutory disclosures continued

UK broadcasting licences

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

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

German broadcasting licences

Sky Deutschland Fernsehen GmbH & Co. KG is party to a number of broadcasting licences issued by the State Media Authorities BLM (Bayerische Landeszentrale für Neue Medien) and MafSH (Medienanstalt Hamburg Schleswig-Holstein) for its linear Sky Channels. The Interstate Treaty on Broadcasting, (as amended on 25 May 2018) sets out a number of requirements for the licensees of broadcasting licences and providers of non-linear telemedia services. Licensees have an ongoing obligation to comply with these requirements. Failure by a licensee to do so may constitute a breach of the licence and, if not rectified, could result in fines or in the revocation of the licence. The State Media Authorities also have a duty under the Broadcasting Acts to be satisfied that any person holding a broadcasting licence is fit and proper to hold those licences and may revoke those licences if it ceases to be so satisfied. Any change in the ownership structure, including but not limited to an interest change exceeding the threshold of 5% in the shareholder structure of the licensee, has to be notified to and approved by the authorities.

Italian broadcasting licences

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

Co-operation Agreement

The Company and 21st Century Fox entered into a co-operation agreement on 15 December 2016 (the 'Co-operation Agreement') in relation to the Original 21st Century Fox Offer. The Co-operation Agreement was terminated by the Company on 25 April 2018 after the Independent Committee withdrew its recommendation of the Original 21st Century Fox Offer in light of Comcast's announcement of its firm intention to make a £12.50 per share pre-conditional cash offer for the Company.

Following such termination, certain provisions of the Co-operation Agreement ceased to apply, including the obligation on 21st Century Fox to pay a break fee of £200 million. The Co-operation Agreement ensured, however, that certain obligations continued after such termination. These included the obligation on the Company to provide information and assistance to 21st Century Fox for the purposes of obtaining all regulatory clearances.

Furthermore, 21st Century Fox continues to be bound by the standstill provisions in the Co-operation Agreement (as amended) which prevent 21st Century Fox acquiring any interest in Sky shares or taking any other action which would trigger a requirement on 21st Century Fox to make a mandatory offer under Rule 9 of the City Code on Takeovers and Mergers.

A further surviving provision of the Co-operation Agreement provided that, in the event 21st Century Fox switches to pursue its offer for Sky by way of a contractual offer, the acceptance condition for such an offer must be no less than the percentage of Sky Shares to which the offer relates which is equal to a majority of the Sky Shares held by Unaffiliated Sky Shareholders. However, as set out in the 21st Century Fox Offer announcement, in the context of the premium offered pursuant to the 21st Century Fox Offer, the Sky Independent Committee agreed that 21st Century Fox (in its sole discretion) may reduce the minimum acceptance condition of such a contractual offer from a majority of the Sky Shares held by Unaffiliated Sky Shareholders to a simple majority of all Sky Shares (including those held by 21st Century Fox and its affiliates).

A copy of the Co-operation Agreement is available on the Company's microsite relating to the 21st Century Fox Offer at www.skygroup.sky/corporate/investors/offers-for-sky/21st-century-fox-offer

Post-Offer Undertakings

As announced on 9 May 2018, Sky has given legally binding post-offer undertakings in relation to the Comcast Offer that have been agreed with the Panel on Takeovers and Mergers. These post-offer undertakings are conditional upon the Comcast Offer becoming or being declared wholly unconditional in all respects. A copy of the announcement of the post-offer undertakings is available on the Company's microsite relating to the Comcast Offer at www.skygroup.sky/corporate/investors/offers-for-sky/comcast-offer

Disclosures required under Listing Rule 9.8.4R

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

Information required	Page
(1) Amount of interest capitalised and tax relief	93 (Note 3)
(2) Publication of unaudited financial information	n/a
(4) Details of long-term incentive schemes	46 to 50
(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	64
(11) Provision of services by a controlling shareholder	n/a
(12) Shareholder waivers of dividends	61
(13) Shareholder waivers of future dividends	61
(14) Agreements with controlling shareholders	61

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 21 and 22 to the consolidated financial statements.

Political contributions

Political contributions of the Group during 2018 amounted to nil (2017 nil)

Branches

The Group, through various subsidiaries, has established branches in Belgium, Germany, Ireland, Portugal and Switzerland, in which the business operates.

Going concern

The Company's going concern statement is detailed on page 27 of the Strategic Report.

Important events

An update on the 21st Century Fox Offer and Comcast Offer is provided on page 34.

The Company completed the sale of its 20% stake in Sky Bet to The Stars Group Inc. on 10 July 2018. At the closing of the transaction, the Company received £426 million in cash and 7.6 million shares in The Stars Group. This, together with the original sale of the Company's majority stake in 2015, has crystallised a total value of c£1.4 billion for Sky shareholders.

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 Strategic Report (comprising pages 2 to 29) and Directors' report (comprising pages 32 to 45 and 61 to 67) were approved by the Board and signed on its behalf by the Company Secretary

By order of the Board

Chris Taylor
Company Secretary
25 July 2018



Financial statements

Women's Cricket World Cup 2017

Statement of Directors' responsibilities

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

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

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

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

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

Directors' responsibility statement

The Directors confirm that to the best of their knowledge

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

By order of the Board
Jeremy Darroch
Group Chief Executive Officer
25 July 2018

Andrew Griffith
Group Chief Operating Officer
and Chief Financial Officer
25 July 2018

Independent Auditor's report

Independent auditor's report to the members of Sky plc

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements of Sky plc give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 June 2018 and of the Group's profit for the year then ended,
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB);
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation

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

- the consolidated income statement,
- the consolidated statement of comprehensive income,
- the consolidated and Parent Company balance sheets;
- the consolidated and Parent Company statements of changes in equity,
- the consolidated and Parent Company cash flow statements; and
- the related notes 1 to 31.

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

Basis for opinion

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

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

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

Summary of our audit approach

Key audit matters	<p>The key audit matters that we identified in the current year were:</p> <ul style="list-style-type: none"> Revenue recognition for bundled items in retail subscription revenue; recognition of entertainment programming expense in the UK & Ireland; valuation of goodwill for the Germany & Austria cash generating unit, financing of mobile handset receivables in the UK, and capital project accounting in the UK & Ireland.
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Materiality	The materiality that we used in the current year was £65 million which was determined on the basis of profit before tax after removing for certain one-off items ('normalised profit before tax').
Scoping	Our audit scope is consistent with the prior year and includes the Group's UK & Ireland, Germany & Austria, and Italy operations. The Spain and Switzerland businesses are included within the UK & Ireland and Germany & Austria operations respectively.
Significant changes in our approach	We have added financing of mobile handset receivables and valuation of goodwill for the Germany & Austria cash generating unit as key audit matters this year. There were no other significant changes in our approach for the year ended 30 June 2018 compared with the prior year.

Conclusions relating to principal risks, going concern and viability statement

Going concern

We have reviewed the Directors' statement in note 1 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 and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

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

Principal risks and viability statement

Based solely on reading the Directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the Directors' assessment of the Group's and the Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 24 to 27 that describe the principal risks and explain how they are being managed or mitigated,
- the Directors' confirmation on page 24 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; or
- the Directors' explanation on page 27 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 are also required to report whether the Directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit

Independent Auditor's report continued

Key audit matters

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

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

The financing of mobile handset receivables, as described on page 90, is a new and complex area of accounting for the Group. The valuation of goodwill for Germany & Austria requires significant judgement on the part of management on key assumptions, which are described in note 10. As a result, we allocated additional effort and resources to these areas and have included them as key audit matters this year.

Key Audit Matter	How the scope of our audit responded to the key audit matter
<p>Revenue recognition for bundled items in retail subscription revenue</p> <p>The Group sells subscription packages to customers which include multiple elements and may include discounts and offers, for example TV subscription, hardware and telephony services sold for a single package price. The Group earned direct-to-consumer revenue of £11,830 million in 2018 (2017: £11,312 million), which includes subscription revenue.</p> <p>The allocation of retail subscription revenue to each element of a bundled transaction is complex and requires judgement over the timing and relative value attributed to each element, as described in the Audit Committee Report on page 41 and in the Group's critical accounting policies on page 88.</p> <p>There is a risk that inappropriate allocations of value could lead to non-compliance with accounting standards and incorrect timing of revenue recognition under the Group's accounting policies.</p> <p>We have pinpointed a risk of fraud in revenue to manual adjustments made to the system-based revenue profile for bundled items in retail subscription revenue.</p>	<p>In order to address the completeness of revenue adjustments that are made by management to align the timing of revenue recognition to the Group's accounting policies, our audit procedures included:</p> <ul style="list-style-type: none"> evaluating the Group's revenue recognition policy and management's current year accounting assessment for bundled transactions, and assessing the different product bundles and offers in the year to pinpoint the risk of incorrect timing of revenue recognition. <p>In order to address the accuracy and completeness of revenue recognition and any timing adjustments, our audit procedures included:</p> <ul style="list-style-type: none"> confirming the implementation of the Group's policy in each territory by performing walkthroughs and tests of controls to confirm our understanding of the process by which revenue is calculated by the relevant billing systems; assessing whether the timing of revenue recognition should be adjusted based on the relative fair value of elements delivered at different points during the contract, when compared to the revenue calculated by the relevant billing system; for bundles assessed as being at higher risk of requiring revenue recognition timing adjustments, inspecting the accounting treatment of the bundle with greater scrutiny by vouching the fair value of different elements to appropriate evidence; and where revenue recognition timing adjustments were identified as being required, validating the valuation and accuracy of these adjustments to align revenue recognition to the Group's accounting policy. <p>In response to the potential for fraud in the manual adjustments made to the system-based billing profile, our audit procedures included:</p> <ul style="list-style-type: none"> calculating an independent expectation of retail subscription revenue; understanding the nature of adjustments and resulting journals that are made to the system-based profile, and vouching to appropriate evidence the rationale for a sample of these journals, validating their valuation and accuracy.
<p>Key observations</p> <p>Based on our work, we are satisfied that revenue recognition for bundled items in retail subscription revenue, including consideration of manual adjustments, has been recognised appropriately and is in accordance with the Group's revenue recognition policy.</p>	

Key Audit Matter	How the scope of our audit responded to the key audit matter
<p>Recognition of general entertainment programming expense in the UK & Ireland</p> <p>Determining the timing and amount of the general entertainment programming expense recognised in the period requires judgement in selecting the appropriate recognition profiles. The profiles should achieve the objective of recognising the programming inventory expense in line with the way that the benefit of the inventory is consumed by the Group, as set out in the Audit Committee Report on page 41 and in the Group's critical accounting policies on page 89.</p> <p>General entertainment programming expense involves more judgement than other types of programming due to the number of quantitative and qualitative factors involved in the selection and application of an appropriate expense profile, for example:</p> <ul style="list-style-type: none"> time period and frequency with which the programme is expected to be utilised on the Group's linear and non-linear (on demand) services; expectations of the number of viewers a programme is likely to achieve for each broadcast on the Group's linear channels; potential benefits associated with utilising programming; the relative values associated with linear and on demand rights, and evolving viewing habits and broadcast methods over time. <p>There is a risk that the recognition profiles selected by management for entertainment programming, and therefore the expense recognised, do not reflect the way that the Group consumes the benefit of the inventory.</p> <p>Key observations</p> <p>Based on our work, we are satisfied that the accounting for entertainment programming expense in the UK & Ireland is appropriate and in line with the Group's accounting policies.</p>	<p>The UK & Ireland business spends the greatest amount of the three major territories on general entertainment programming, and is the most developed market in respect of changing viewing trends and broadcast methods. As a result, we allocate additional effort and resource in this area on the UK & Ireland component of the Group.</p> <p>In order to address the accuracy and completeness of general entertainment programming expense, our audit procedures included:</p> <ul style="list-style-type: none"> critically assessing management's review of amortisation profiles by searching for contradictory and corroborative evidence, including through the use of computer-assisted analytical tools to measure changes in viewing and scheduling trends against cost recognition; comparing the expense profiles determined by management with those that would be indicated by viewing trends (used as a proxy for value from broadcast) in addition to other qualitative factors such as brand and/or channel value; assessing the appropriateness of the fair value apportioned to linear and non-linear (on demand) viewing rights in content contracts, including through analysis of viewing data, and benchmarking management's general entertainment amortisation policy against industry practice in the UK.
Key Audit Matter	How the scope of our audit responded to the key audit matter
<p>Valuation of goodwill for the Germany & Austria cash generating unit</p> <p>The Group has goodwill of £4,972 million (2017: £4,930 million) across its three cash generating units ("CGUs"), of which £3,213 million (2017: £3,192 million) relates to Germany & Austria.</p> <p>Determining the recoverable amount of each CGU, which is calculated on the basis of value in use as described in note 10, requires judgement by management over the expected future performance and cash flows of the relevant CGU.</p> <p>In particular, for Germany & Austria, significant judgement is required by management on variables such as the size and opportunity of the subscription business in the territory, medium and long term growth rates, assumptions on the levels of programming spend, the Group's ability to reduce operational costs over time, and the most appropriate discount rate.</p>	<p>We pinpointed our work to the German element of the business as this is the most significant part of the Germany & Austria CGU and involved the most judgement by management.</p> <p>Our audit procedures performed included:</p> <ul style="list-style-type: none"> evaluating management's identification of CGUs to ensure that Germany & Austria is the appropriate level on which to assess the valuation of goodwill; involving our valuation specialists to evaluate the appropriateness of the discount rate, medium and long term growth rates and valuation methodology applied in management's model; evaluating revenue growth and cost assumptions against historical trends and detailed business plans, and third-party estimates of future performance; inspecting independently obtained research to search for contradictory and corroborative evidence of the market opportunity in the German market; performing independent sensitivities including increases in levels of programming spend and delays to growth in cash flows; evaluating management's forecasting ability against actual results; considering the value of the business in light of the offers for the Company; and reviewing the adequacy of the related disclosures in note 10 to the financial statements.
<p>Key observations</p> <p>Based on our work, we are satisfied with management's conclusion that the goodwill allocated to the Germany & Austria cash generated unit does not need to be impaired. We are satisfied with the enhanced disclosures management has made in note 10.</p>	

Independent Auditor's report continued

Key Audit Matter	How the scope of our audit responded to the key audit matter
<p>Financing of mobile handset receivables in the UK</p> <p>The financing of handset receivables is a new activity for the business in the UK. As described in note 20, the Group sold £142 million of handset receivables into a securitisation entity ('the Entity'), with associated financing costs of £11 million. In addition, it received less than £1 million in interest on its junior debt and received less than £1 million in fees for its role as servicing agent for the Entity's receivables. At the year end, the Group's investment in the junior debt issued by the Entity was £19 million.</p> <p>The Group has concluded that it does not control the Entity and therefore that it should not be consolidated and that the handset receivables can be de-recognised from the balance sheet.</p> <p>The assessment of both control of the Entity and the assessment of de-recognition of the receivables is complex and requires judgement, as described in the Group's critical accounting policies on page 90:</p> <ul style="list-style-type: none"> the arrangement may operate in such a way that the securitisation Entity is controlled by the Group and should therefore be consolidated; and substantially all the risks and rewards of ownership may not have been transferred from the Group to the Entity and receivables may therefore have been inappropriately de-recognised from the Group's balance sheet. 	<p>In order to address the control of the Entity, our audit procedures included:</p> <ul style="list-style-type: none"> evaluating management's assessment of control of the Entity, through enquiring with the third parties in the arrangement and inspecting evidence of interaction with the Group; inspecting third-party evidence, both corroborative and contradictory, including correspondence between the Group and third parties involved in the arrangement; and evaluating the completeness and compliance of disclosures in the financial statements against the relevant reporting standards. <p>In order to address the de-recognition of the handset receivables, our audit procedures included:</p> <ul style="list-style-type: none"> critically assessing and challenging management's assessment for the de-recognition of the receivables against the requirements and criteria of IAS 39; and involving financial instrument specialists to validate the appropriateness of the methodology and assumptions used in the de-recognition assessment.
<p>Key observations</p> <p>Based on our work, we are satisfied that the Entity should not be consolidated in Group's financial statements and that the handset receivables have been appropriately de-recognised.</p>	
Key Audit Matter	How the scope of our audit responded to the key audit matter
<p>Capital project accounting in the UK & Ireland</p> <p>During the year, the Group had additions to intangible assets of £570 million (2017: £553 million) and to property, plant and equipment of £703 million (2017: £666 million), as shown in notes 11 and 12.</p> <p>The assessment and timing of whether assets meet the capitalisation criteria set out in IAS 38 Intangible Assets and IAS 16 Property, Plant and Equipment requires judgement, as set out in the Audit Committee Report on page 41 and in the Group's critical accounting policies on page 89. 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.</p> <p>As a result, there is a risk that expenditure is inappropriately capitalised based on relevant accounting guidance, and that obsolete assets or assets not yet in use are not recoverable at their carrying value.</p>	<p>The UK & Ireland incurs the most complex and greatest amount of capital expenditure across the Group. In addition, it incurs expenditure on behalf of all territories: for example the development of the Sky Q box. As a result, we allocated additional effort for our procedures on this territory.</p> <p>In order to address the classification and valuation of capitalised assets, our audit procedures included:</p> <ul style="list-style-type: none"> testing the design and operating effectiveness of management's controls in respect of the capitalisation of assets and the identification of potential indicators of impairment; for a sample of capital expenditure projects: <ul style="list-style-type: none"> critically assessing management's considerations of whether the project meets IAS 16 or IAS 38 capitalisation criteria; meeting with project managers outside of the finance function to understand the project scope and status, evaluate the project against capitalisation criteria, and to search for indicators of impairment; developing a detailed understanding of the project business case and tracing to expenditure authorisations; and vouching a sample of project costs to appropriate evidence.
<p>Key observations</p> <p>Based on our work, we are satisfied that the accounting for capital projects is appropriate and in line with the Group's accounting policies.</p>	

Materiality

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

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

	Group financial statements	Parent Company financial statements
Materiality	£65 million (2017: £65 million)	£62 million (2017: £60 million)
Basis for determining materiality	This represents 8% of normalised profit before tax (2017: 8%).	The Parent Company's materiality is determined as 3% (2017: 3%) of its net asset position at the year end, capped at the highest component materiality of £62 million
Rationale for the benchmark applied	As Sky plc is a public interest entity with listed equity we determined normalised profit before tax to be the most appropriate benchmark. This is defined as statutory profit before tax of £864 million after removing for the effects of one-off items in the year such as: the distribution received from associate, profit on disposal of available-for-sale investment, regulatory-related receipts and proceeds of settlements, and costs incurred in respect of the offers for Sky. Further detail of the amounts in respect of these is included in note 8.	The Parent Company is not a trading entity, and primarily contains investments in Group companies and borrowings. As a result, the benchmark considered most relevant to the users of the Parent Company's financial statements is net assets.

We agreed with the Audit Committee that we would report to the Audit Committee all audit differences in excess of £3.25 million (2017: £3.25 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our audit scope is consistent with the prior year and includes the Group's UK & Ireland, Germany & Austria, and Italy operations all of which were subject to a full scope audit for the year ended 30 June 2018. The Spain and Switzerland businesses are included within the UK and German operations respectively. As a result all of the Group's assets, revenue and adjusted profit before tax are subject to an audit either scoped by our component audit teams to their respective component materiality or by the Group audit team. The Group audit team directed, supervised and reviewed the work of the component auditors for Germany & Austria and for Italy, which involved issuing detailed instructions, holding regular discussions with component audit teams, making multiple visits to each location throughout the year, performing detailed file reviews and attending local audit meetings with management.

Audit work performed for the Group's UK & Ireland operations was performed by the Group and UK audit team. The Group audit partner visited all components, attending key meetings with both component auditors and local management. The Group audit team performed work on the consolidation

Audit work in UK & Ireland, Germany & Austria and Italy was performed at levels of materiality which were lower than Group materiality and ranged from £39m to £52m, depending on the component's contribution to the Group's profit before tax.

Other information

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

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

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

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

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

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

We have nothing to report in respect of these matters

Independent Auditor's report continued

Responsibilities of Directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

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

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Other matters

Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the Directors on 26 July 2002 to audit the financial statements for the year ending 30 June 2002 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 17 years, covering the years ending 30 June 2002 to 30 June 2018.

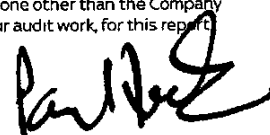
Consistency of the audit report with the additional report to the Audit Committee

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

Use of our report

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

Paul Franek FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London
25 July 2018



Consolidated financial statements

Consolidated income statement

for the year ended 30 June 2018

	Notes	2018 £m	2017 £m
Revenue	2	13,585	12,916
Operating expense	2	(12,551)	(11,952)
Operating profit		1,034	964
Share of results of joint ventures and associates	13	56	21
Investment income	3	11	22
Finance costs	3	(286)	(204)
Profit on disposal of available-for-sale investment	4	49	-
Profit before tax	5	864	803
Taxation	7	(49)	(112)
Profit for the year		815	691
Profit (loss) for the year attributable to:			
Equity shareholders of the parent company		815	695
Non-controlling interests		-	(4)
		815	691
Earnings per share from profit for the year (in pence)			
Basic	8	47.5p	40.6p
Diluted	8	47.2p	40.0p

Consolidated statement of comprehensive income

for the year ended 30 June 2018

	2018 £m	2017 £m
Profit for the year	815	691
Other comprehensive income		
Amounts recognised directly in equity that may subsequently be recycled to the income statement		
Gain on revaluation of available-for-sale investments (see note 4)	49	-
(Loss) gain on cash flow hedges (see note 21)	(139)	31
Tax on cash flow hedges (see note 15)	25	(2)
Loss on net investment hedges (see note 21)	(42)	(335)
Exchange differences on translation of foreign operations (see note 22)	-	396
Actuarial movements on employee benefit obligations (see note 19)	-	1
	(107)	91
Amounts reclassified and reported in the income statement		
Loss (gain) on cash flow hedges (see note 21)	64	(85)
Tax on cash flow hedges (see note 15)	(11)	17
Transfer to income statement on disposal of available-for-sale investment (see note 4)	(49)	-
	4	(68)
Amounts recognised and reported in non-financial assets (basis adjustment)		
Gain on cash flow hedges (see note 21)	(71)	(165)
Tax on cash flow hedges (see note 15)	11	33
	(60)	(132)
Other comprehensive loss for the year (net of tax)	(163)	(109)
Total comprehensive income for the year	652	582
Total comprehensive income (loss) for the year attributable to:		
Equity shareholders of the parent company	652	586
Non-controlling interests	-	(4)
	652	582

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

Consolidated financial statements continued

Consolidated balance sheet

as at 30 June 2018

	Notes	2018 £m	2017 £m
Non-current assets			
Goodwill	10	4,972	4,930
Intangible assets	11	4,531	4,626
Property, plant and equipment	12	2,548	2,273
Investments in joint ventures and associates	13	42	116
Available-for-sale investments	14	117	110
Deferred tax assets	15	425	302
Programme distribution rights	16	109	63
Trade and other receivables	17	45	41
Derivative financial assets	21	475	643
		13,264	13,104
Current assets			
Inventories	16	1,305	1,113
Trade and other receivables	17	1,729	1,475
Current tax assets		2	12
Short-term deposits	21	-	300
Cash and cash equivalents	21	1,622	2,200
Derivative financial assets	21	80	234
		4,738	5,334
Total assets		18,002	18,438
Current liabilities			
Borrowings	20	447	974
Trade and other payables	18	4,586	4,303
Current tax liabilities		139	146
Provisions	19	127	107
Derivative financial liabilities	21	22	20
		5,321	5,550
Non-current liabilities			
Borrowings	20	7,754	8,207
Trade and other payables	18	141	87
Provisions	19	81	83
Derivative financial liabilities	21	428	384
Deferred tax liabilities	15	257	280
		8,661	9,041
Total liabilities		13,982	14,591
Share capital	23	860	860
Share premium	24	2,704	2,704
Reserves	24	452	274
Total equity attributable to equity shareholders of the parent company	24	4,016	3,838
Total equity attributable to non-controlling interests		4	9
Total liabilities and equity		18,002	18,438

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 25 July 2018 and were signed on its behalf by:


Jeremy Darroch
Group Chief Executive Officer


Andrew Griffith
Group Chief Operating Officer and Chief Financial Officer

Consolidated cash flow statement

for the year ended 30 June 2018

	Notes	2018 £m	2017 £m
Cash flows from operating activities			
Cash generated from operations	25	1,910	2,254
Interest received		7	15
Taxation paid		(151)	(163)
Net cash from operating activities		1,766	2,106
Cash flows from investing activities			
Dividends received from joint ventures and associates		131	20
Funding to joint ventures and associates		(8)	(9)
Repayment of loan from associate		-	83
Loan to joint venture		-	(14)
Purchase of joint ventures and associates		-	(2)
Proceeds on disposal of joint ventures and associates		-	4
Purchase of property, plant and equipment		(662)	(628)
Proceeds on disposal of property, plant and equipment		-	1
Purchase of intangible assets		(523)	(546)
Purchase of subsidiaries (net of cash and cash equivalents purchased)		(11)	(26)
Purchase of available-for-sale investments		(18)	(34)
Proceeds on disposal of available-for-sale investments		69	2
Decrease (increase) in short-term deposits		300	(300)
Net cash used in investing activities		(722)	(1,449)
Cash flows from financing activities			
Repayment of borrowings		(787)	(7)
Repayment of obligations under finance leases		(3)	(16)
Proceeds from disposal of shares in Employee Share Ownership Plan ('ESOP')		14	15
Purchase of own shares for ESOP		(200)	-
Payments to satisfy exercise of employee share awards		(5)	-
Interest paid		(248)	(238)
Capital contribution from non-controlling interests		-	7
Dividends paid to shareholders of the parent		(396)	(358)
Dividends paid to holders of non-controlling interests		(5)	(4)
Net cash used in financing activities		(1,630)	(601)
Net (decrease) increase in cash and cash equivalents		(586)	56
Cash and cash equivalents at the beginning of the year		2,200	2,137
Effect of foreign exchange rate movements		8	7
Cash and cash equivalents at the end of the year		1,622	2,200

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

Consolidated financial statements continued

Consolidated statement of changes in equity

for the year ended 30 June 2018

	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	Other reserves £m	Retained (deficit) earnings £m			
At 1 July 2016	860	2,704	(125)	257	302	(551)	3,447	(6)	3,441
Profit (loss) for the year	-	-	-	-	-	695	695	(4)	691
Net investment hedges	-	-	-	-	(335)	-	(335)	-	(335)
Exchange differences on translation of foreign operations	-	-	-	-	396	-	396	-	396
Recognition and transfer of cash flow hedges:									
- In equity	-	-	-	31	-	-	31	-	31
- In income statement	-	-	-	(85)	-	-	(85)	-	(85)
- In non-financial assets (basis adjustment)	-	-	-	(165)	-	-	(165)	-	(165)
Tax on items taken directly to equity	-	-	-	48	-	-	48	-	48
Actuarial movements on employee benefit obligations	-	-	-	-	1	-	1	-	1
Total comprehensive income (loss) for the year	-	-	-	(171)	62	695	586	(4)	582
Share-based payment	-	-	47	-	-	109	156	-	156
Non-controlling interests arising on purchase of subsidiaries	-	-	-	-	-	-	-	23	23
Tax on items taken directly to equity	-	-	-	-	-	7	7	-	7
Dividends	-	-	-	-	-	(358)	(358)	(4)	(362)
At 30 June 2017	860	2,704	(78)	86	364	(98)	3,838	9	3,847
Profit for the year	-	-	-	-	-	815	815	-	815
Net investment hedges	-	-	-	-	(42)	-	(42)	-	(42)
Recognition and transfer of cash flow hedges:									
- In equity	-	-	-	(139)	-	-	(139)	-	(139)
- In income statement	-	-	-	64	-	-	64	-	64
- In non-financial assets (basis adjustment)	-	-	-	(71)	-	-	(71)	-	(71)
Tax on items taken directly to equity	-	-	-	25	-	-	25	-	25
Revaluation of available-for-sale investments	-	-	-	-	49	-	49	-	49
Transfer to income statement on disposal of available-for-sale investment	-	-	-	-	(49)	-	(49)	-	(49)
Total comprehensive income for the year	-	-	-	(121)	(42)	815	652	-	652
Share-based payment	-	-	69	-	-	(166)	(97)	-	(97)
Tax on items taken directly to equity	-	-	-	-	-	19	19	-	19
Dividends	-	-	-	-	-	(396)	(396)	(5)	(401)
At 30 June 2018	860	2,704	(9)	(35)	322	174	4,016	4	4,020

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

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

Notes to the consolidated financial statements

1. Accounting policies

Sky plc (the 'Company') is a public limited company incorporated in the United Kingdom ('UK') and registered in England and Wales.

The consolidated financial statements include the Company and its subsidiaries (together, the 'Group') and its interests in associates and jointly controlled entities.

a) Statement of compliance

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

b) Basis of preparation

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

The Group maintains a 52 or 53 week fiscal year ending on the Sunday nearest to 30 June in each year. In fiscal year 2018, this date was 1 July 2018, this being a 52 week year (fiscal year 2017: 2 July 2017, 52 week year). For convenience purposes, the Group continues to date its consolidated financial statements as at 30 June and to refer to the accounting period as a 'year' for reporting purposes.

The Group has classified assets and liabilities as current when they are expected to be realised in, or intended for sale or consumption in, the normal operating cycle of the Group.

Adjusted measures, which are a type of alternative performance measure, disclosed in the consolidated financial statements exclude items that may distort comparability in order to provide a measure of underlying performance. Such items arise from events or transactions that fall within the ordinary activities of the Group but which management believes should be separately identified to help explain underlying performance. Adjusted measures are not defined terms under IFRS and may not be comparable to similar measures used elsewhere. Further details regarding the Group's alternative performance measures are disclosed in the unaudited supplemental information to the Group's financial statements on page 135.

c) Basis of consolidation

i. Subsidiaries

Subsidiaries are entities controlled by the Company. Control is achieved where the Company has existing rights that give it the current ability to direct the relevant activities that affect the Company's returns and exposure or rights to variable returns from the entity. Subsidiaries are included in the consolidated financial statements of the Company from the date control of the subsidiary commences until the date that control ceases. Intragroup balances, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

ii. Associates and joint ventures

Associates are entities where the Group has significant influence, but not control or joint control, over the relevant activities of the entity. Joint ventures are joint arrangements whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. These consolidated financial statements include the Group's share of the total profit or loss and other comprehensive income of associates and joint ventures using the equity method, from the date that significant influence or joint control commences to the date that it ceases, based on present ownership interests and excluding the possible exercise of potential voting rights, less any impairment losses (see accounting policy i). When the Group's interest in an associate or joint venture has been reduced to nil because the Group's share of losses exceeds its interest in the associate or

joint venture, the Group only provides for additional losses to the extent that it has incurred legal or constructive obligations to fund such losses, or where the Group has made payments on behalf of the associate or joint venture. Where the disposal of an investment in an associate or joint venture is considered to be highly probable, the investment ceases to be equity accounted and, instead, is classified as held for sale and stated at the lower of carrying amount and fair value less costs to sell.

iii. Non-controlling interests

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

d) Goodwill

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

Deferred consideration or contingent consideration (often referred to as earnout agreements) which are not linked to the future employment of previous shareholders in the post-completion period are recognised as part of the fair value of the consideration for the purchase of the business. Movements in the fair value of the consideration outside of the first year anniversary of the business purchase are recognised in the income statement. Consideration for the purchase of equity capital pertaining to non-controlling interests is presented in the financing activities of the cash flow statement.

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

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

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

i. Intangible assets

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

Notes to the consolidated financial statements continued

1. Accounting policies (continued)

Other intangible assets which are acquired by the Group separately or through a business combination are initially stated at cost or fair value, respectively, less accumulated amortisation and impairment losses.

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

Principal useful economic lives used for this purpose are

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

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

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

ii. Property, plant and equipment

Owned PPE is stated at cost, net of accumulated depreciation and any impairment losses (see accounting policy i). When an item of PPE comprises major components having different useful economic lives, the components are accounted for as separate items of PPE.

The costs of assets comprise the following, where applicable:

- Purchase price, including import duty and non-refundable purchase taxes, after probable trade discounts and rebates
- Directly attributable costs of bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, including relevant delivery and logistics costs

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

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

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

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

To the extent that the financing for a qualifying asset is part of the Group's general borrowings, the interest cost to be capitalised is calculated based upon the weighted average cost of borrowing to the Group (excluding the interest on any borrowings specific to any qualifying assets). This is then applied to the expenditures on the asset. All other borrowing costs are recognised in profit or loss in the period to which they relate

f) Derivative financial instruments and hedging activities

The Group uses derivative financial instruments to hedge its exposure to fluctuations in interest and foreign exchange rates. Derivatives are held at fair value from the date on which a derivative contract is entered into. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under IFRS 13 'Fair Value Measurement'.

The Group calculates a separate credit valuation adjustment ('CVA') or debit valuation adjustment ('DVA') for each derivative based upon the net position for each counterparty relationship

The Group calculates the CVA where it has a net asset position using a quoted credit default swap curve for the counterparty and calculates the DVA where it has a net liability position using an industry proxy credit default swap curve for the Group. The fair value of derivative financial instruments is calculated by discounting future cash flows with reference to the benchmark Libor curve, adjusted by the relevant credit default swap curve.

Certain derivatives held by the Group which relate to highly probable forecast transactions ('hedged items'), which meet qualifying criteria under IAS 39 'Financial Instruments: Recognition and Measurement' ('IAS 39'), are designated as cash flow hedges. Other derivatives which hedge changes in fair value of fixed rate financial instruments and meet the requirements of IAS 39 are designated as fair value hedges. Certain borrowings and derivatives have been designated as net investment hedges of the Group's foreign operations for movements in the spot foreign exchange rate, see section r for further details. Certain other derivatives held by the Group do not meet the qualifying criteria for recognition for accounting purposes as hedges, despite this being their economic function. Changes in the fair values of these derivatives are recognised immediately in the income statement. The Group does not hold or issue derivatives for speculative purposes.

i. Derivatives that qualify for cash flow hedge accounting

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

Amounts accumulated in the hedging reserve are subsequently recognised in the income statement when the related hedged item is recognised in the income statement or in the initial cost or other carrying amount of the non-financial asset or liability on the balance sheet, again being recognised in the income statement in the periods in which the related hedged items are recognised in the income statement. At inception, the effectiveness of the Group's cash flow hedges is assessed through a comparison of the principal terms of the hedging instrument and the underlying hedged item. The ongoing effectiveness of the Group's cash flow hedges is assessed using the dollar-offset approach, with the expected cash flows of hedging instruments being compared to the expected cash flows of the hedged items. This assessment is used to demonstrate that each hedge relationship is expected to be highly effective on inception, has been highly effective in the period and is expected to continue to be highly effective in future periods. The measurement of hedge ineffectiveness for the Group's hedging instruments is calculated using the hypothetical derivative method, with the fair values of the hedging instruments being compared to those of the hypothetical derivative that would result in the designated cash flow hedge achieving perfect hedge effectiveness.

The excess of the cumulative change in the fair value of the actual hedging instrument compared to that of the hypothetical derivative is deemed to be hedge ineffectiveness, which is recognised in the income statement.

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

When a cash flow hedging instrument expires, is terminated or is exercised, or if a hedge no longer meets the qualifying criteria for hedge accounting, any cumulative gain or loss existing in the hedging reserve at that time remains in the hedging reserve and is recognised in the initial cost or other carrying amount of the non-financial asset or liability on the balance sheet provided that the underlying transaction is still expected to occur. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in the hedging reserve is immediately recognised in the income statement and all future changes in the fair value of the cash flow hedging instruments are immediately recognised in the income statement.

ii. Derivatives that qualify for fair value hedge accounting

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

Prospective effectiveness is assessed quarterly, through a comparison of the principal terms of the hedging instrument and the underlying hedged item, including the likelihood of default by the derivative counterparty.

The retrospective effectiveness of the Group's fair value hedges is calculated quarterly using the cumulative dollar-offset approach, with movements in the fair value of the hedged item being compared to movements in the fair value of the hedging instrument. The Group uses a range of 80% to 125% for hedge effectiveness and any relationship which has effectiveness outside this range is deemed to be ineffective and hedge accounting is suspended.

iii. Embedded derivatives

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

g) Inventories

i. Acquired and commissioned television programme rights for broadcast

Programme inventories for broadcast are stated at the lower of cost and net realisable value ('NRV'), including, where applicable, estimated subscriber escalation payments, and net of the accumulated expense charged to the income statement to date. Such programming rights are included as inventories when the legally enforceable licence period commences and all of the following conditions have been met: (a) the cost of each programme is known or reasonably determinable; (b) the programme material has been accepted by the Group in accordance with the conditions of the rights; and (c) the programme is available for its first showing.

Prior to being included in inventories, the programming rights are classified as television programme rights not yet available for transmission and not recorded as inventories on the Group's balance sheet and are instead disclosed as contractual commitments (see note 26). Payments made in advance of the legal right to broadcast the programmes are treated as prepayments in trade and other receivables.

The cost of television programme inventories is recognised in the operating expense line of the income statement, over the period the Group utilises and consumes the programming rights, applying linear-broadcast and time-based methods of amortisation depending on the type of programme right, taking into account the circumstances primarily as described below.

These circumstances may change or evolve over time and, as such, the Group regularly reviews and updates the method used to recognise programming expense.

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

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

ii. Programme distribution rights

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

The cost of the programme distribution rights is recognised in operating expense in line with the profile of expected revenue generation.

iii. Set-top boxes, routers and related equipment

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

iv. Raw materials, consumables and goods held for resale and third-party equipment and vouchers used in marketing

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

Third-party equipment used for marketing purposes, such as televisions, tablets and consoles, and vouchers providing money off third-party goods and prepaid credit cards are recognised at purchase cost in inventory, and subsequently in operating expense on delivery to the customer.

1. Accounting policies (continued)

h) Financial assets and liabilities

Directly attributable transaction costs are included in the initial measurement of financial assets and liabilities only with respect to those assets and liabilities that are not subsequently measured at fair value through profit and loss. At each balance sheet date, the Group assesses whether there is any objective evidence that any financial asset is impaired.

Financial assets and liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the financial asset or liability. Financial assets are derecognised from the balance sheet when the Group's contractual rights to the cash flows expire or the Group transfers substantially all the risks and rewards of the financial asset. Financial liabilities are derecognised from the Group's balance sheet when the obligation specified in the contract is discharged, cancelled or expires.

i. Available-for-sale investments

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

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

Available-for-sale investments are included within non-current assets unless the carrying value is expected to be recovered principally through sale within the next 12 months, in which case they are included within current assets. On disposal, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had previously been recognised directly in reserves is recognised in the income statement.

ii. Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments and, where no stated interest rate is applicable, are measured at the original invoice amount, if the effect of discounting is immaterial. Where discounting is material, trade and other receivables are measured at amortised cost using the effective interest method.

An allowance account is maintained to reduce the carrying value of trade and other receivables for impairment losses identified from objective evidence, with movements in the allowance account, either from increased impairment losses or reversals of impairment losses, being recognised in the income statement.

iii. Cash and cash equivalents

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

iv. Short-term deposits

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

v. Trade and other payables

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

vi. Borrowings

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

h) Impairment

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

An impairment is recognised in the income statement whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. An impairment of an investment in a joint venture or associate is recognised within the share of profit from joint ventures and associates. The recoverable amount is the greater of net selling price, defined as the fair value less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to those units, and then to reduce the carrying amount of other assets in the unit on a pro rata basis.

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

j) Provisions

Provisions are recognised when the Group has a probable, present legal or constructive obligation to make a transfer of economic benefits as a result of past events where a reliable estimate is available. The amounts recognised represent the Group's best estimate of the transfer of benefits that will be required to settle the obligation as of the balance sheet date.

Provisions are discounted if the effect of the time value of money is material using a pre-tax market rate adjusted for risks specific to the liability.

k) ESOP reserve

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

l) Revenue recognition

Revenue, which excludes value added tax and transactions between Group companies, represents the gross inflow of economic benefit from the Group's operating activities, and is measured at the fair value of the consideration received or receivable. The Group's main sources of revenue are recognised as follows:

- Direct-to-consumer revenue includes subscription and transactional revenue from residential and commercial customers. Subscription revenue includes revenue from residential and commercial subscribers to TV, Mobile and home communication products, including over-the-top ('OTT') subscriptions, and income from set-top box, Mobile handset and tablet sales, installation, service calls and warranties. Revenue is recognised, net of any discount given, as the goods or services are provided. Transactional revenue includes the purchase of physical

content, OTT passes, pay per view and buy to keep content. Transactional revenue is recognised, net of any discount given, when the relevant goods or service are provided.

- Content revenue includes revenue from the sale of channels and programmes across other platforms and internationally. Channel sales revenue is recognised as the services are provided on a wholesale basis to cable and other retailers and is based on the number of subscribers taking the Sky channels, as reported to the Group by the cable and other retailers, and the applicable rate card or contract. Programme sales revenue is earned from the production of programming and the distribution of programming rights. Production revenue is recognised on a stage of completion basis, where the stage of completion is determined by comparing the proportion of costs incurred to date to the total estimated cost of the transaction. Distribution revenue is recognised when the contract is signed and the final content has been delivered for customer exploitation.
- Advertising sales revenue is recognised when the advertising is broadcast. Revenue generated from airtime sales, where Sky acts as an agent on behalf of third parties, is recognised on a net commission basis.

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

When the Group sells a set-top box, installation or service and a subscription in one bundled transaction, the total consideration from the arrangement is allocated to each element based on their relative fair values. The fair value of each individual element is determined using vendor specific or third-party evidence. The amount of revenue the Group recognises for the delivered elements is limited to (cannot exceed) the cash received or consideration receivable. Discounts are allocated to products on a pro-rata basis according to relative fair values, except where there is observable evidence that the discount relates to one or more, but not all, products within the bundle.

m) Employee benefits

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

Where the Group provides pensions to eligible employees through defined contribution schemes, the amount charged to the income statement in the year represents the cost of contributions payable by the Group to the schemes in exchange for employee services rendered in that year. The assets of the schemes are held independently of the Group. Liabilities in relation to employee obligations which are economically similar to defined benefit pension schemes are accounted for as such under IAS 19.

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

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

except where forfeiture is due to the failure to meet market-based performance measures. In the event of a cancellation, whether by the Group or by a participating employee, the compensation expense that would have been recognised over the remainder of the vesting period is recognised immediately in the income statement.

Deferred or contingent payments (often referred to as earnout agreements), arising in business combinations, which are linked to the future employment of previous shareholders in the post-completion period, are recognised as employee remuneration costs in operating expense, whereby the expected fair value of subsequent payments is accrued in accordance with IAS 19. Employee remuneration is presented in operating activities in the cash flow statement.

n) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the asset to the lessee. All other leases are classified as operating leases.

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

When the Group is a lessee

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

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

When the Group is a lessor

Assets which are provided under operating lease arrangements are recognised as assets within property, plant and equipment. The assets remain in the economic ownership of the Group for the duration of the lease, and are depreciated over their useful economic lives.

o) Taxation, including deferred taxation

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

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and adjusted to reflect an amount that is probable to be realised based on the weight of all available evidence. Deferred tax is calculated at the rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax assets and liabilities are not discounted. Deferred tax is charged or credited in the income statement, except where it relates to items charged or credited directly to equity, in which case the deferred tax is also included within equity.

1. Accounting policies (continued)

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 2018.

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 2 'Share-based Payments' (effective 1 January 2018)
- IFRIC 22 'Foreign Currency Transactions and Advanced Consideration' (effective 1 January 2018)
- Amendments to IFRS 4 'Insurance contracts' (effective 1 January 2018)
- Amendments to IAS 40 'Investment Properties' (effective 1 January 2018)
- IFRS 17 'Insurance Contracts' (effective 1 January 2021)*
- IFRIC 23 'Uncertainty over Income Tax Treatments' (effective 1 January 2019)*
- Amendments to IAS 28 'Investments in Associates and Joint Ventures' - Long term interests (effective 1 January 2019)*
- Annual Improvements to IFRS Standards 2015-2017 (effective 1 January 2019)*
- Amendments to IAS 19 'Employee Benefits' - Plan amendment, Curtailment or Settlement (effective 1 January 2019)*
- Amendments to References to the Conceptual Framework in IFRS Standards (effective 1 January 2020)*
- Prepayment Features with Negative Compensation - Amendments to IFRS 9 (effective 1 January 2019)*
- IFRS 15 'Revenue from Contracts with Customers' is effective on the Group from 1 July 2018 onwards.

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

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

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

When IFRS 15 is adopted, it can be applied either on a fully retrospective basis, requiring the restatement of the comparative periods presented in the financial statements, or with the cumulative impact of IFRS 15 applied as an adjustment to equity on the date of adoption; when the latter approach is applied, it is necessary to disclose the impact of IFRS 15 on each line item in the financial statements in the reporting period.

The Group has determined that it will adopt IFRS 15 on a modified retrospective basis. The Group has also determined that the results of its segments will exclude IFRS 15, on the basis that the Group will continue to be managed internally using the Group's current 'cash-led' accounting policies, for both revenue and cost. In line with the modified retrospective adoption approach, the Group will also present its consolidated group result under both IFRS 15 and its existing accounting policies.

In the current year, management has concluded a detailed accounting scoping analysis across each of the Group's operating segments and across the products and services within the Group's revenue streams, the results of which are summarised below. Management has also determined and developed implementation approaches for each revenue stream based on the potential materiality, complexity and volatility of impacts, utilising a mixture of system led and manually derived estimates, as appropriate given the specific nature of IFRS 15 adjustments identified.

Overall, IFRS 15 is expected to result in the recognition of a material new contract asset and a material new asset pertaining to the costs of obtaining customer contracts. Material year-on-year changes to revenue, operating profit and profit before tax are not anticipated. However, significant and potentially volatile changes in these statutory measures are foreseeable, depending on the specific volume, value and mix of trading activity in a given period.

At the time of finalising and approving the Group financial statements in July 2018, the Group remains in the process of calculating, reviewing and validating the IFRS 15 transition impacts in order to derive the consolidated Group balance sheet under IFRS 15, as at 30 June 2018. Where practicable, further direction on expected impacts (pre-tax) is provided below.

Direct-to-consumer revenue - Subscription

- The Group's revenue recognition for bundled subscription products will no longer be limited to the consideration receivable for a delivered element. As a result, the Group will bring forward revenue for distinct products and services delivered at the start of a subscription contract, where the price charged for those performance obligations is lower than the stand-alone selling price. This will correspondingly reduce subsequent subscription revenue across the remainder of the customer contract, but will not change revenue recognised in total or the amount or timing of associated cash flows. Specifically:
 - Revenue will be brought forward and a contract asset recognised for the installation of Sky TV and Fibre Broadband services, resulting in higher initial revenue and lower subsequent subscription revenues than our current accounting policy
 - Revenue will be brought forward and a contract asset recognised on delivery of equipment which is owned by the customer, such as certain set-top boxes or broadband routers, resulting in higher initial revenue and lower subsequent subscription revenues than our current accounting policy
 - Revenue will now be allocated to third party equipment and vouchers included within customer bundles for marketing and customer acquisition purposes. As a result, revenue will be brought forward resulting in a contract asset being recognised, compared to our current treatment of recognising a cost upfront on delivery of the marketing offer
- Where product or service discounts reduce the total consideration for a customer's bundle, these will be allocated to all distinct performance obligations in the bundle. The impact of discounts will be spread over the minimum contract period. Currently, discounts reduce revenue over the offer period, rather than over the minimum contract period.
- Discounts will also be allocated to all distinct performance obligations in the customer bundle on a pro-rata basis. This will reduce the revenue recognised upfront or brought forward, for upfront delivery.
- Certain upfront fees relating to separately identifiable deliverables, but which are concluded not to pertain to distinct performance obligations under IFRS 15 requirements, will result in revenue being deferred compared to our current accounting treatments
- Certain propositions are concluded to be within the scope of the new 'repurchase agreement' and 'right of return' guidance in IFRS 15. As a result, Sky anticipates deferring a portion of upfront revenues and also a portion of upfront cost, to represent its best estimate of the expected value of the assets it anticipates repurchasing from customers, compared to its current accounting treatment of recognising total revenue and cost on delivery to the customer
- The accounting for contract modifications not made at stand-alone sales price will differ compared to current accounting treatments of recognising all contract modifications as separate contracts on a prospective basis. This is anticipated to accelerate the amortisation of a given contract asset through revenue, potentially resulting in contract liabilities at certain points, of the customer's minimum subscription period. The overall effect of this is anticipated to reduce the quantum of contract asset recognised on balance sheet, at any point in time.

- The Group will apply IFRS 9's new provisioning model to newly recognised contract assets, such that an allowance account will be set-up against the contract asset at inception, to represent the effect of anticipated customer churn within the minimum contract period. The recognition of the new allowance account is expected to decrease the net contract receivable recognised at any point in time, with the corresponding impact being incurred in operating expense.

Across the Group, the cumulative net contract asset recognised as at 30 June 2018 on transition, resulting from the accounting changes to subscription revenues discussed above, is expected to be in the order of £20-£70 million.

- Cohorts of costs to obtain customer contracts have been identified that will require capitalisation under IFRS 15, pertaining to certain sales commissions and incentives payable to Sky employees and third-party agencies, as well as certain online display costs.
- The costs will be amortised over the period the Group expects to benefit from the new customer relationship, compared to being expensed as incurred currently. Depending on the facts and circumstances of each territory, accelerated or straight-line methods of amortisation are anticipated, with a resulting amortisation period of 5 years.

Across the Group, the cumulative cost to obtain customer contracts recognised as at 30 June 2018 on transition, is expected to be in the order of £350 million.

Transactional

- No significant impacts in the recognition of transactional revenues related costs have been identified, compared to current accounting treatments

Advertising

- No significant changes in the recognition of advertising revenues have been identified, which are anticipated to be recognised as the advertising campaigns or impressions are delivered over time, in line with current treatments
- No significant changes to existing principal versus agent judgements have been identified, compared to current accounting treatments.
- No significant impacts in cost recognition have been identified, compared to current accounting treatments

Content - Channel

- No significant changes in the recognition of channel (wholesale) revenues or in cost recognition have been identified, compared to current accounting treatments
- It is anticipated that channel revenue will be recognised over time as the service is delivered

Content - Programming

- Distribution:** It is anticipated that revenue will be recognised on the control of the final programming being transferred to the customer, rather than on risks and rewards being transferred, as currently. As a result, it is anticipated that distribution revenues will be recognised on licence period commencement, deferring revenues compared to our current accounting treatment. On transition, the balance sheet impact is expected in the range of £nil to 5 million
- Production:** It is anticipated that revenue will be recognised on control of the final programming being transferred to the customer at a point in time, as opposed to being recognised on a stage of completion basis over time, as currently, deferring revenue and cost compared to current accounting treatments. On transition, the balance sheet impact is expected in the range of £5-15 million

Notes to the consolidated financial statements continued

1. Accounting policies (continued)

- IFRS 9 'Financial Instruments' replaces IAS 39 'Financial Instruments: Recognition and Measurement' and is effective on the Group from 1 July 2018 onwards.

The areas which impact the Group relate to the recognition of impairment provisions for customer receivables and other financial assets and the accounting for available-for-sale investments. IFRS 9 also contains new rules relating to hedge accounting, although the adoption of these is not mandatory and the Group will continue to apply IAS 39 hedge accounting policies.

With respect to impairment provisions, IFRS 9 introduces a model based on expected credit loss. This requires a provision to be made for impairment from the initial point at which the receivable is recognised, compared to IAS 39 which requires a provision to be made only when a loss event occurs. The IFRS 9 credit loss model is not expected to have a material impact on either the Group's balance sheet position or income statement result.

IFRS 9 requires certain of the Group's trade receivables to be measured at fair value, as opposed to amortised cost. The balance sheet impact of this is expected to be less than £2 million.

IFRS 9 requires all available-for-sale investments to be held on the balance sheet at fair value, with associated movements incurred in either the income statement or in equity reserves, as an accounting policy choice. The balance sheet impact on transition is expected to be less than £15 million.

IFRS 9 requires that amounts recognised in non-financial assets (basis adjustment) are removed directly from reserves, rather than being released through other comprehensive income as is currently allowed under IAS 39.

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

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

IFRS 16 replaces IAS 17 'Leases' and will primarily change lease accounting for lessees, lessor accounting under IFRS 16 is expected to be similar to lease accounting under IAS 17. Lessee accounting under IFRS 16 will be similar in many respects to existing IAS 17 accounting for finance leases, but is expected to be substantively different to existing accounting for operating leases.

Where a contract meets IFRS 16's definition of a lease, 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, which may impact the phasing of operating profit and profit before tax, compared to existing cost profiles and presentation in the income statement, and will also impact the classification of associated cash flows.

The detailed assessment of the impact on the Group is ongoing, with the current focus being on assessing of the completeness of lease contracts.

The adoption is expected to have a material impact on the presentation of the Group's assets and liabilities, mainly relating to significant property leases. Due to the quantity of contracts under review, management has not completed the impact assessment of the new accounting standard, and therefore a quantification of the impact on the Group's results cannot currently be reliably estimated.

* not yet endorsed for use in the EU

u) Critical accounting policies and judgements and key sources of estimation uncertainty

Certain accounting policies are considered to be critical to the Group. An accounting policy is considered to be critical if, in the Directors' judgement, its selection or application materially affects the Group's financial position or results. The application of the Group's accounting policies also requires the use of estimates and assumptions that affect the Group's financial position or results.

Below is a summary of areas in which estimation is applied primarily in the context of applying critical accounting policies and judgements.

Critical accounting policies and judgements

1. Revenue (see note 2)

Selecting the appropriate timing for, and amount of, revenue to be recognised requires judgement. This may involve estimating the fair value of consideration before it is received. Judgement is required in determining which products constitute a bundle, and how revenue is allocated to products within the bundle. When the Group sells a set-top box, installation service and TV, home communications and/or mobile subscriptions in one bundled transaction, the total consideration from the arrangement is allocated to each element based on its relative fair value. The fair value of each individual element is determined using vendor-specific or third-party evidence. The amount of revenue the Group recognises for the delivered elements is limited to the cash received or consideration receivable, which is not contingent on the delivery of additional goods or services.

Discounts are allocated to products on a pro-rata basis according to relative fair values, except where there is observable evidence that the discount relates to one or more, but not all, products within the bundle, so as to faithfully represent the commercial substance of the transaction.

Mobile handset and tablet revenues are recognised upfront on delivery to the customer. The Sky Mobile proposition includes an option whereby the customer can sell their handset to Sky at a preset market price. This requires the application of judgement in assessing whether or not the customer's option is on-market, taking into account the expected future resale value of the equipment. If the option is concluded to be on-market, the Group recognises handset and tablet revenue on delivery, and any future purchases of customer handsets or tablets at the time of purchase, as inventory.

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

The Group's total tax charge is the sum of the current and deferred tax charges. The calculation of the Group's total tax charge necessarily involves a degree of estimation and judgement in respect of certain items whose tax treatment cannot be finally determined until resolution has been reached with the relevant tax authority or, as appropriate, through a formal legal process.

Provisions for tax contingencies require management to make judgements and estimates in relation to tax audit issues and exposures. Amounts provided are based on management's interpretation of applicable tax law and the likelihood of settlement and include any liability for interest and penalties. Tax benefits are not recognised unless it is probable that the tax positions will be sustained. Once considered to be probable, management reviews each material tax benefit to assess whether a provision should be taken against full recognition of the benefit on the basis of the likely resolution of the issue through negotiation and/or litigation. The amounts recognised in the consolidated financial statements in respect of each matter are derived from the Group's best estimation and judgement, as described above. However, the inherent uncertainty regarding the outcome of these items means the eventual resolution could differ from the provision and in such event the Group would be required to make an adjustment in a subsequent period which could have a material impact on the Group's profit and loss and/or cash position. There is a reasonable possibility that an overseas tax matter will be resolved within the next 12 months. A resolution in favour of the Group would result in a reduction of up to £48 million in the liability recognised as at 30 June 2018.

The key area of judgement in respect of deferred tax accounting is the assessment of the expected timing and manner of realisation or settlement of the carrying amounts of assets and liabilities held at the balance sheet date. In particular, assessment is required of whether it is probable that there will be suitable future taxable profits against which any deferred tax assets can be utilised. Specifically, the Group has a gross deferred tax asset relating to unused tax losses in Sky Deutschland of £805 million (2017: £727 million), which is recognised net of the deferred tax liabilities principally arising from the fair value of acquired customer contracts in Sky Deutschland resulting in a net deferred tax asset for Sky Deutschland of £401 million (2017: £296 million), as described in note 15.

iii. Intangible assets and property, plant and equipment (see notes 11 and 12)

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

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

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

Determining the costs of assets to be capitalised requires judgement. Specifically, judgement and estimation is required in determining the amount of duties and non-refundable taxes, probable trade discounts and rebates, and directly attributable costs to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management (including relevant delivery and logistics costs to the customer's premises) to be allocated to the asset.

iv. Programming inventory for broadcast (see note 16)

The key areas of accounting for programming inventory for broadcast that require judgement are the assessment of the appropriate profile over which to amortise general entertainment programming, and the proportion of sports rights cost which should be allocated to an off-season period.

General entertainment programming

The general entertainment programming assessment requires the Group to form an expectation of:

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

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

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

Sports rights – off-season allocation

The majority or all of sports right cost is recognised in the income statement on first broadcast or, where the rights are for multiple seasons or competitions, principally on a straight-line basis across the seasons or competitions. Where the rights are packaged, sold and/or significantly consumed over the off-season, the Group also allocates an appropriate portion of the total rights value to the off-season period, and that cost is recognised on a straight-line basis over the off-season period.

Judgement is therefore required in determining how the Group utilises and consumes sports rights during the off-season. In forming this judgement, it considers the hours expected to be scheduled in the off-season, viewing expected to be achieved in the off-season, subscriber profiles over the off-season, as well as other qualitative considerations.

During the current year, the Group's pay TV business in the UK and Ireland repackaged its sport channel proposition, resulting in new sport-specific channels being retailed to the customer, which are consumed throughout the year. As a result, a portion of total rights value has been allocated to the off-season period, and will be recognised on a straight-line basis over the off-season period. This change in accounting estimate has resulted in a reduction in programming expense of £35 million in the year.

Notes to the consolidated financial statements continued

1. Accounting policies (continued)

v. Mobile handset financing (see note 20)

During the year, the Group entered into a securitisation facility with a third party for the sale of mobile handset receivables. The Group does not have control over the securitisation entity, and has transferred substantially all the risks and rewards of the receivables.

As a result, the receivables have been derecognised and the securitisation entity is not consolidated within the Group's financial statements, such that the transfer of handset receivables is treated as a sale.

The Group applies judgement in its assessment of the derecognition of handset trade receivables on a cohort-by-cohort basis, taking into account its best estimate of expected credit losses and expected volatility of credit losses. In doing so, it considers historical credit losses and volatility incurred with respect to other Sky products and services, as well as external benchmarks. As a result of the discount applied and the securitisation entity's investment structure, c90-95% of expected losses and variability in losses is expected to be transferred.

The Group also applies judgement in its assessment of whether it controls the securitisation entity, to determine whether it should be consolidated within the Group financial statements. In doing so, it considers whether the Group has power over the entity, exposure or rights to variable returns from its involvement with the entity, and the ability to use its power over the entity to affect the level of those returns, as set out in the requirements of IFRS 10.

The Group's power over the securitisation entity has been considered with respect to decisions relating to the transfer of receivables, the servicing of those receivables and risk management of the entity. The Group's exposure or rights to variable returns from the securitisation entity has been considered with respect to the level of fees earned and the nature of any investment which the Group holds in the entity. The Group's ability to use its power to affect the level of those returns has been considered taking into account the degree to which the Group benefits from any upside performance and its residual exposure to downside performance. As a result of this evaluation, it was determined that the Group does not have control over the securitisation entity.

Further information on the handset financing structure, including disclosures required under IFRS 12 regarding non-consolidated securitisation entities, and also under IFRS 7 regarding the derecognition of financial assets where the Group has continuing involvement, can be found in note 20.

Key sources of estimation uncertainty

Areas for which there are major sources of estimation uncertainty at the reporting period end (as defined by IAS 1), that have a significant risk of causing a material adjustment to be made to the carrying value amounts of assets and liabilities within the next financial year, are discussed below.

By contrast, areas where estimation is applied primarily in the context of applying critical accounting policies and judgements, have been discussed in the preceding section above.

vi. Recoverability of deferred tax assets

The recognition of deferred tax assets is contingent on the Group's estimation of the future taxable income, particularly that of Sky Deutschland. This estimation is supported by the Group's latest available medium term plan, which was considered by the Company's Board of Directors, and extrapolated beyond the forecast period as disclosed in note 15. Given the nature of Sky Deutschland's subscription-based business model, management has sufficient confidence in its ability to execute and realise these plans. A consistent set of forecasts is used as the basis for assessing the carrying value of deferred tax assets with that used in the Group's annual impairment review of goodwill associated with Sky Deutschland, as described in note 1 and note 10.

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

2. Operating segments

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

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

Segmental income statement for the year ended 30 June 2018

	UK & Ireland £m	Germany & Austria £m	Italy £m	Adjusting Items and Eliminations £m	Statutory Group Total £m
Direct-to-consumer	7,611	1,896	2,323	-	11,830
Content	788	31	27	(8)	838
Advertising	540	96	281	-	917
Revenue	8,939	2,023	2,631	(8)	13,585
Inter-segment revenue	(8)	-	-	8	-
Revenue from external customers	8,931	2,023	2,631	-	13,585
Programming	(3,698)	(1,243)	(1,490)	(57)	(6,488)
Direct network costs	(1,148)	-	-	9	(1,139)
Sales, general and administration	(2,696)	(784)	(952)	(492)	(4,924)
Operating expense	(7,542)	(2,027)	(2,442)	(540)	(12,551)
EBITDA	1,888	119	342	(241)	2,108
Depreciation and amortisation	(499)	(123)	(153)	(299)	(1,074)
Operating profit (loss)	1,389	(4)	189	(540)	1,034
Share of results of joint ventures and associates					56
Investment income					11
Finance costs					(286)
Profit on disposal of available-for-sale investment					49
Profit before tax					864

Financial statements

Notes to the consolidated financial statements continued

2. Operating segments (continued)

Segmental income statement for the year ended 30 June 2017

	UK & Ireland £m	Germany & Austria £m	Italy £m	Adjusting Items and Eliminations £m	Statutory Group Total £m
Direct-to-consumer	7,398	1,760	2,154	-	11,312
Content	698	22	62	(4)	778
Advertising	508	76	242	-	826
Revenue	8,604	1,858	2,458	(4)	12,916
Inter-segment revenue	(4)	-	-	4	-
Revenue from external customers	8,600	1,858	2,458	-	12,916
Programming	(3,649)	(1,039)	(1,495)	(17)	(6,200)
Direct network costs	(964)	-	-	-	(964)
Sales, general and administration	(2,703)	(778)	(824)	(483)	(4,788)
Operating expense	(7,316)	(1,817)	(2,319)	(500)	(11,952)
EBITDA	1,739	143	257	(203)	1,936
Depreciation and amortisation	(451)	(102)	(118)	(301)	(972)
Operating profit	1,288	41	139	(504)	964
Share of results of joint ventures and associates					21
Investment income					22
Finance costs					(204)
Profit before tax					803

Results for each segment are presented on an adjusted basis. A reconciliation of statutory to adjusted profit is shown in note 8 which also includes a description of the adjusting items. Transactions between segments are recorded based on estimated market prices.

To provide a more relevant presentation, management has chosen to reanalyse the revenue categories from those previously reported. Revenues previously included in Subscription, Transactional and Other have been aggregated into Direct-to-consumer revenue. Revenue previously labelled Programme and Channel sales is now labelled Content. To provide a more relevant presentation, management has chosen to reanalyse the segmental allocation of certain costs in the prior year, to be consistent with their presentation in the current year, resulting in the transfer of Sales, general and administration expense of £1 million from Germany & Austria and £3 million from Italy into the UK & Ireland segment.

During the year, the Group's pay TV business in the UK and Ireland repackaged its sport channel proposition, resulting in new sport-specific channels being retailed to the customer, which are consumed throughout the year. As a result, in accordance with the Group's accounting policy for the cost of sports rights, a portion of the total rights value has been allocated to the off-season period, and will be recognised on a straight-line basis over the off-season period. This change in accounting estimate has resulted in a reduction in programming expense of £35 million in the year.

Revenue of £8,325 million (2017: £8,050 million) arises from goods and services provided to the UK and revenue of £5,260 million (2017: £4,866 million) arises from services provided to other countries. Non-current assets located in the UK were £11,661 million (2017: £10,915 million) and non-current assets located outside the UK were £499 million (2017: £977 million).

Included within operating expenses for the year ended 30 June 2018 are:

- Costs of £194 million (2017: £140 million) relating to corporate restructuring and efficiency programmes. These costs have been recognised as follows:
 - £24 million (2017: £20 million) within Programming
 - £170 million (2017: £120 million) within Sales, general and administration ('SG&A')
- Costs of £66 million (2017: £50 million) relating to the integration of Sky Deutschland and Sky Italia in the enlarged Group. These costs have been recognised as follows:
 - £2 million (2017: £1 million) within Programming
 - £64 million (2017: £49 million) within SG&A
- Costs of £23 million (2017: £56 million) relating to advisory fees and share-based payments incurred as a result of offers for the Company recognised within SG&A
- Income of £21 million (2017: nil) relating to regulatory related receipts and proceeds of settlements. This income has been recognised as follows:
 - £9 million within Direct Network Costs
 - £12 million within SG&A
- Costs of £278 million (2017: £258 million) relating to the amortisation of acquired intangible assets and related acquisition costs. These costs have been recognised as follows:
 - £31 million (2017: nil) within Programming
 - £247 million (2017: £258 million) within SG&A

3. Investment income and finance costs

	2018 £m	2017 £m
Investment income		
Interest on cash, cash equivalents and short-term deposits	3	6
Interest on other loans and receivables	5	16
Dividends receivable from available-for-sale investments	3	-
	11	22
	2018 £m	2017 £m
Finance costs		
- Interest payable and similar charges		
Facility related costs	(2)	(5)
Guaranteed Notes (see note 20)	(215)	(233)
Finance lease interest	(6)	(7)
Mobile handset financing costs	(11)	-
	(234)	(245)
- Other finance income (expense)		
Remeasurement of borrowings and borrowings-related derivative financial instruments (not qualifying for hedge accounting)	(57)	22
Remeasurement of other derivative financial instruments (not qualifying for hedge accounting)	5	18
Loss arising on derivatives in a designated fair value hedge accounting relationship	(14)	(47)
Gain arising on adjustment for hedged item in a designated fair value hedge accounting relationship	14	48
	(52)	41
	(286)	(204)

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 2.5% (2017: 2.7%) to expenditure on such assets. The amount capitalised in the current year amounted to £8 million (2017: £10 million). Tax relief in the current year on capitalised interest totals £1 million (2017: £1 million).

4. Profit on disposal of available-for-sale investment

On 27 March 2018, the Group completed its disposal of its investment in Roku Inc. consisting of 2,571,740 shares for aggregate consideration of £58 million. A profit of £49 million was realised on disposal, being the excess of the consideration above the initial cost of the shares (£9 million).

5. Profit before taxation

Profit before taxation is stated after charging:

	2018 £m	2017 £m
Cost of inventories recognised as an expense	5,217	4,847
Depreciation, impairment and losses (profits) on disposals of property, plant and equipment	430	366
Amortisation, impairment and losses (profits) on disposals of intangible assets	644	606
Rentals on operating leases and similar arrangements	101	99

Foreign exchange

Foreign exchange gains recognised in the income statement during the year amounted to £1 million (2017: gains of £23 million).

Notes to the consolidated financial statements continued

5. Profit before taxation (continued)

Audit fees

An analysis of auditor's remuneration is as follows:

	2018 £m	2017 £m
Fees payable to the Company's auditor for the audit of the Company's annual accounts	3.5	3.1
Fees payable to the Company's auditor for the audit of the Company's subsidiaries	0.5	0.5
Total audit fees	4.0	3.6
Audit-related services	0.7	0.8
Taxation services	0.1	0.2
Other assurance services	0.2	0.5
Other advisory services	3.2	2.7
Total non-audit fees	4.2	4.2

Other assurance services principally relate to assurance procedures performed on Group billing systems and The Bigger Picture assurance.

Deloitte Germany and Deloitte Italy provided technology consulting and advisory services to Sky Deutschland and Sky Italia during the year. As described in the Report of the Audit Committee, these services were reviewed regularly throughout the year in order to ensure the continued independence of Deloitte LLP as auditors of the Group. The total fees for these services were £3.2 million (2017: £2.7 million). Total non-audit fees excluding non-audit fees incurred as a consequence of Offers for the Company were £3.8 million (2017: £3.4 million).

6. Employee benefits and key management compensation

a) Group employee benefits

	2018 £m	2017 £m
Wages and salaries	1,306	1,331
Social security costs	184	202
Costs of employee share option schemes ¹	94	147
Contributions to the Group's pension schemes ²	48	49
	1,632	1,729

¹ £94 million relates to equity-settled share-based payments (2017: £147 million).

² The Group operates defined contribution pension schemes. The pension charge for the year represents the cost of contributions payable by the Group to the schemes during the year. The amount payable to the schemes by the Group at 30 June 2018 was £7 million (2017: £9 million).

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

	2018 Number	2017 Number
Channels and services	5,684	4,750
Customer service, sales and marketing	16,242	16,774
Transmission and technology	4,497	4,962
Management and administration	2,504	2,646
	28,927	29,132

There are approximately 1,476 (2017: 1,009) temporary staff included within the average number of full-time equivalent persons employed by the Group.

b) Key management compensation (see note 28d)

	2018 £m	2017 £m
Short-term employee benefits	6	6
Share-based payments	9	11
	15	17

Post-employment benefits were less than £1 million (2017: less than £1 million). The amounts disclosed for key management compensation are included within the disclosures in note 6(a).

7. Taxation

a) Taxation recognised in the income statement

	2018 £m	2017 £m
Current tax expense		
Current year – UK	142	183
Adjustment in respect of prior years – UK	(4)	(34)
Current year – overseas	21	16
Adjustment in respect of prior years – overseas	(2)	(16)
Total current tax charge	157	149
Deferred tax expense		
Origination and reversal of temporary differences – UK	22	(17)
Adjustment in respect of prior years – UK	(5)	11
Origination and reversal of temporary differences – overseas	(59)	(31)
Adjustment in respect of prior years – overseas	(66)	-
Total deferred tax credit	(108)	(37)
Taxation	49	112

b) Taxation recognised directly in equity

	2018 £m	2017 £m
Current tax credit relating to share-based payments	(6)	(1)
Deferred tax credit relating to share-based payments	(13)	(6)
Deferred tax credit relating to cash flow hedges	(25)	(48)
	(44)	(55)

c) Reconciliation of effective tax rate

The tax expense for the year is lower (2017: lower) than the expense that would have been charged using the statutory rate of corporation tax in the UK (19.0%) (2017: blended rate 19.75%) applied to profit before tax. The differences are explained below:

	2018 £m	2017 £m
Profit before tax:	864	803
Profit before tax multiplied by rate of corporation tax in the UK of 19.0% (2017: blended rate 19.75%)	164	159
Effects of:		
Different statutory tax rates of overseas jurisdictions	(17)	(15)
Disposal of Group investments	(10)	-
Net effect of other non-taxable/non-deductible items	(15)	7
Effect of tax rate changes	4	-
Adjustments in respect of prior years	(77)	(39)
Taxation	49	112

8. Earnings per share

The weighted average number of shares for the year was:

	2018 Millions of shares	2017 Millions of shares
Ordinary shares	1,719	1,719
ESOP trust ordinary shares	(3)	(9)
Basic shares	1,716	1,710
Dilutive ordinary shares from share options	11	29
Diluted shares	1,727	1,739

There are no share options (2017: 89,756) 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.

Notes to the consolidated financial statements continued

8. Earnings per share (continued)

Basic and diluted earnings per share are calculated by dividing the profit for the year attributable to equity shareholders of the parent company by the weighted average number of shares for the year. In order to provide a measure of underlying performance, management has chosen to present an adjusted profit for the year which excludes items that may distort comparability. Such items arise from events or transactions that fall within the ordinary activities of the Group but which management believes should be separately identified to help explain underlying performance. The adjusted results are also those used by management to monitor performance and run the business.

	2018 £m	2017 £m
Profit for the year	815	691
Loss attributable to non-controlling interests	-	4
Profit attributable to equity shareholders of the parent company	815	695

	2018 £m	2017 £m
Reconciliation from profit attributable to equity shareholders of the parent company to adjusted profit for the year attributable to equity shareholders of the parent company		
Profit for the year attributable to equity shareholders of the parent company	815	695
Costs relating to corporate restructuring and efficiency programmes	194	140
Costs relating to the integration of Sky Deutschland and Sky Italia in the enlarged Group	66	50
Regulatory-related receipts and proceeds of settlements	(24)	(8)
Costs relating to advisory fees and share-based payments incurred as a result of offers for the Company	23	56
Amortisation of acquired intangible assets and related acquisition costs	276	269
Distribution received from associate	(33)	-
Profit on disposal of joint venture (see note 13)	-	(8)
Profit on disposal of available-for-sale investment (see note 4)	(49)	-
Remeasurement of all derivative financial instruments not qualifying for hedge accounting and hedge ineffectiveness	52	(41)
Tax adjusting items and the tax effect of above items	(165)	(103)
Adjusted profit for the year attributable to equity shareholders of the parent company	1,155	1,050

	2018 pence	2017 pence
Earnings per share from profit for the year		
Basic	47.5p	40.6p
Diluted	47.2p	40.0p
Adjusted earnings per share from adjusted profit for the year		
Basic	67.3p	61.4p
Diluted	66.9p	60.4p

9. Dividends

	2018 £m	2017 £m
Dividends declared and paid during the year		
2016 Final dividend paid: 20.95p per ordinary share	-	358
2018 Special dividend paid: 10.00p per ordinary share	172	-
2018 Interim dividend paid: 13.06p per ordinary share	224	-
	396	358

As the 21st Century Fox Offer had not become effective at 31 December 2017, and in accordance with the terms of the offer, a special dividend was paid on 9 February 2018.

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

10. Goodwill

	£m
Carrying value	
At 1 July 2016	4,713
Foreign exchange movements	188
Other	29
At 30 June 2017	4,930
Foreign exchange movements	16
Other	26
At 30 June 2018	4,972

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:

	2018 £m	2017 £m
UK and Ireland ¹	936	932
Germany and Austria ²	3,213	3,192
Italy ³	823	806
	4,972	4,930

Impairment reviews were performed on these goodwill balances at 30 June 2018, which did not indicate impairment.

Recoverable amounts for each of the cash generating units ('CGUs') were calculated on the basis of value in use, using cash flows calculated for the next four years as forecast by management. In order to extrapolate cash flow projections beyond this period:

- A growth rate of 2% for subsequent years was applied to the UK and Ireland CGU;
- An initial growth rate of 20% for the four years beyond our plan period, declining to 2% for subsequent years, was applied to the Germany and Austria CGU; and
- An initial growth rate of 20% for the four years beyond our plan period, declining to 2% for subsequent years, was applied to the planned Italian broadband triple-play service and a growth rate of 2% for subsequent years for the remainder of the Italy CGU.

In the prior year, a growth rate of 2% was applied to all units. The growth rates selected were based on an extrapolation of trends included within management forecasts and on historical growth rates observed by the Group for similar products and/or in similar markets. The approach with respect to growth rates has been updated in the current year to reflect our business plans and expected medium-term penetration of the market in the Germany and Austria CGU and expected medium-term growth following the launch of the Italian broadband triple-play service in the Italy CGU.

The cash flows of the UK and Ireland CGU were discounted using a pre-tax discount rate of 8% (2017: 10%), the cash flows of the Germany and Austria CGU were discounted using a pre-tax discount rate of 8% (2017: 8%) and the cash flows of the Italy CGU were discounted using a pre-tax discount rate of 9% (2017: 10%).

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

The key assumptions used to calculate the value in use for each unit include the discount rate, the growth rate used to extrapolate cash flow projections and forecast cash flows. The metrics on which the forecast cash flows of each unit were derived include the number of gross customer additions, the rate of churn, the average revenue per customer, levels of programming spend, acquisition costs per customer and anticipated changes in the product mix and marketing mix of the business activities. The values assigned to each of these 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.

Sensitivity analysis

Changing of the key assumptions selected by management, in particular the discount rate, forecast cash flows and the growth rate used to extrapolate cash flow projections, could significantly affect the Group's impairment evaluation and hence reported assets and profits or losses.

Other than as disclosed below, management believes that no reasonably possible change in any of these key assumptions would cause the carrying value of any CGU to exceed its recoverable amount.

The following changes to key assumptions used in the impairment review would, in isolation, lead to the recoverable amount being equal to the carrying value as at 30 June 2018. For the Germany and Austria CGU, (i) the discount rate would need to increase from 8% to 10%; (ii) the cash flows would need to decrease by 26% in each year; or (iii) the initial growth rate used to extrapolate those cash flow projections would need to decline from 20% to 10%. For the Italy CGU, (i) the discount rate would need to increase from 9% to 12%; or (ii) the cash flows would need to decrease by 26% in each year.

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 (2017: £31 million).

2. Germany and Austria

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

3. Italy

The Italy unit includes goodwill arising from the purchase of Sky Italia. The Italy unit includes intangibles with indefinite lives of £580 million (2017: £573 million).

Notes to the consolidated financial statements continued

11. Intangible assets

	Trademarks £m	Internally generated intangible assets £m	Software development (external) and software licences £m	Customer contracts and related customer relationships £m	Other intangible assets £m	Internally generated intangible assets not yet available for use £m	Acquired intangible assets not yet available for use £m	Total £m
Cost								
At 1 July 2016	546	750	666	3,451	510	148	228	6,299
Additions from business combinations	-	-	-	22	5	-	-	27
Additions	-	135	105	-	72	98	143	553
Disposals	-	(50)	(21)	-	(2)	(8)	-	(81)
Transfers	-	112	92	-	1	(117)	(88)	-
Foreign exchange movements	27	-	12	181	6	-	4	230
At 30 June 2017	573	947	854	3,654	592	121	287	7,028
Additions from business combinations	-	-	-	3	-	-	-	3
Additions	-	107	106	-	53	200	104	570
Disposals	-	(26)	(13)	-	(7)	(6)	(7)	(59)
Transfers	-	108	113	-	1	(108)	(114)	-
Foreign exchange movements	7	-	1	17	-	-	-	25
At 30 June 2018	580	1,136	1,061	3,674	639	207	270	7,567
Amortisation								
At 1 July 2016	5	385	405	653	405	-	-	1,853
Amortisation	1	137	123	251	76	-	-	588
Disposals	-	(50)	(21)	-	(2)	(8)	-	(81)
Impairments	-	3	6	-	1	8	-	18
Foreign exchange movements	-	-	4	20	-	-	-	24
At 30 June 2017	6	475	517	924	480	-	-	2,402
Amortisation	-	166	145	236	71	-	-	618
Disposals	-	(26)	(13)	-	(7)	(6)	-	(52)
Impairments	-	4	9	-	-	6	-	19
Foreign exchange movements	-	-	2	47	-	-	-	49
At 30 June 2018	6	619	660	1,207	544	-	-	3,036
Carrying amounts								
At 1 July 2016	541	365	261	2,798	105	148	228	4,446
At 30 June 2017	567	472	337	2,730	112	121	287	4,626
At 30 June 2018	574	517	401	2,467	95	207	270	4,531

The estimated future amortisation charge on intangible assets with finite lives for each of the next five years is set out below. It is likely that future amortisation will vary from the figures below as the estimate does not include the impact of any future investments, disposals or capital expenditure.

Year ending 30 June	2019 £m	2020 £m	2021 £m	2022 £m	2023 £m
Estimated amortisation charge	594	489	417	342	293

Within intangible assets there are certain assets with indefinite useful lives. The carrying value of these assets is £611 million (2017: £604 million).

The Group's internally generated intangible assets relate principally to software development associated with our customer management systems and set-top boxes. The Group's other intangible assets mainly include copyright licences and connection fees.

As part of the acquisition of Sky Italia the Group acquired the rights to use trademarks in certain territories. The rights to use trademarks in certain territories are considered to have indefinite lives because the Group has the intention and ability to consume these rights over an indefinite period. An impairment review of the assets is performed annually as part of the Group's impairment reviews of its CGUs (see note 10).

Included within customer contracts and related customer relationships are intangible assets with a net book value of £1,439 million (2017: £1,555 million) and a remaining useful life of 12 years (2017: 13 years) relating to the acquired customer base in Germany and Austria and intangible assets with a net book value of £953 million (2017: £1,030 million) and a remaining useful life of 12 years (2017: 13 years) relating to the acquired customer base in Italy.

12. Property, plant and equipment

	Freehold land and buildings ² £m	Leasehold improvements £m	Equipment, furniture and fixtures £m	Owned set-top boxes £m	Assets not yet available for use £m	Total £m
Cost						
At 1 July 2016	414	104	1,775	616	481	3,390
Additions	32	13	112	6	503	666
Disposals	(4)	(24)	(66)	(98)	-	(192)
Transfers	210	5	143	387	(745)	-
Foreign exchange movements	1	1	6	23	1	32
At 30 June 2017	653	99	1,970	934	240	3,896
Additions	4	17	66	48	568	703
Disposals	(2)	(17)	(35)	(278)	-	(332)
Transfers	31	5	118	465	(619)	-
Foreign exchange movements	-	-	1	4	-	5
At 30 June 2018	686	104	2,120	1,173	189	4,272
Depreciation						
At 1 July 2016	73	60	1,084	216	-	1,433
Depreciation	12	10	200	125	-	347
Impairments	3	-	-	2	-	5
Disposals	(4)	(24)	(65)	(84)	-	(177)
Foreign exchange movements	-	1	2	12	-	15
At 30 June 2017	84	47	1,221	271	-	1,623
Depreciation	14	9	172	201	-	396
Impairments	-	-	6	8	-	14
Disposals	(2)	(17)	(34)	(259)	-	(312)
Foreign exchange movements	-	-	-	3	-	3
At 30 June 2018	96	39	1,365	224	-	1,724
Carrying amounts						
At 1 July 2016	341	44	691	400	481	1,957
At 30 June 2017	569	52	749	663	240	2,273
At 30 June 2018	590	65	755	949	189	2,548

1 The amounts shown include assets held under finance leases with a net book value of £15 million (2017: £8 million). The cost of these assets was £41 million (2017: £30 million) and the accumulated depreciation was £26 million (2017: £22 million). Depreciation charged during the year on such assets was £4 million (2017: £5 million).

2 Depreciation was not charged on £88 million of land (2017: £88 million).

13. 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 30 to the consolidated financial statements.

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

	2018 £m	2017 £m
Share of net assets:		
At 1 July	116	123
Movement in net assets		
- Funding	8	9
- Dividends received	(131)	(20)
- Share of profits	56	21
- Acquisition of associates and joint ventures	-	2
- Disposal of joint ventures and associates	(7)	(19)
At 30 June	42	116

The aggregate carrying amount of the investments in joint ventures and associates that are not individually material for the Group is £42 million as at 30 June 2018 (2017: £41 million). The Group's share of any capital commitments and contingent liabilities of associates and joint ventures is shown within the totals in note 26.

Notes to the consolidated financial statements continued

13. Investments in joint ventures and associates (continued)

a) Investments in associates

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

	2018 £m	2017 £m
Non-current assets	-	818
Current assets	-	140
Current liabilities	-	(127)
Non-current liabilities	-	(884)
Shareholders' deficit	-	(53)
Group's share of shareholders' deficit	-	(11)
Consolidation and other adjustments	-	86
Investment in associates	-	75
Revenue	-	513
Loss after tax	-	(6)

During the year, the Group received a cash distribution of £113 million from Sky Bet, following Sky Bet's recapitalisation. The distribution was applied to reduce the carrying value of the Group's investment in Sky Bet to nil, with the excess of £33 million being recognised as income. On 21 April 2018, the Group reached an agreement to dispose of its investment in Sky Bet to The Stars Group Inc., following which the investment was reclassified as a held for sale asset, with a carrying value of nil. The sale of this investment was completed on 10 July 2018 (for further details see note 29).

b) Investments in joint ventures

Representing the Group's share of each joint venture:

	2018 £m	2017 £m
Non-current assets	9	11
Current assets	80	86
Current liabilities	(30)	(36)
Non-current liabilities	(144)	(126)
Shareholders' deficit	(85)	(65)
Revenue	89	114
Expense	(72)	(95)
Taxation	(3)	(5)
Share of profit from joint ventures	14	14

14. Available-for-sale investments

At 30 June 2018 the Group held £117 million (2017: £110 million) of unlisted investments. These investments consist of minority equity stakes in a number of technology and start-up companies.

During 2018, the Group purchased investments in iflix Limited (£8 million) and Fubo TV (£4 million). Other principal investments include Dataxu Inc. During the year, the Group sold its investment in Roku Inc. for an aggregate consideration of £58 million, realising a profit on disposal of £49 million (for further details see note 4).

15. 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 2016	(35)	(761)	696	79	28	(70)	(63)
(Charge) credit to income	(14)	46	4	(20)	21	-	37
Credit to equity	-	-	-	-	6	47	53
Acquisition of subsidiaries	-	(4)	1	1	-	-	(2)
Effect of change in tax rate	-	-	-	-	-	-	-
- Income	5	(1)	(1)	(2)	(1)	-	-
- Equity	-	-	-	-	-	1	1
Foreign exchange movements	(1)	(40)	40	(1)	(1)	(1)	(4)
At 30 June 2017	(45)	(760)	740	57	53	(23)	22
Credit (charge) to income	10	31	62	23	(22)	8	112
Credit to equity	-	-	-	-	14	28	42
Effect of change in tax rate	-	-	-	-	-	-	-
- Income	1	(3)	-	-	(1)	(1)	(4)
- Equity	-	-	-	-	(1)	(3)	(4)
Foreign exchange movements	-	(5)	5	-	-	-	-
At 30 June 2018	(34)	(737)	807	80	43	9	168

Deferred tax assets have been recognised at 30 June 2018 and 30 June 2017 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 £401 million as at 30 June 2018 (2017: £296 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 medium term plan, which was considered by the Company's Board of Directors, and extrapolated beyond the forecast period as disclosed in note 10. The forecast shows that the Group will continue to benefit from the utilisation of the tax losses beyond the initial forecasting period.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the periods in which they reverse. The rates enacted or substantively enacted for the relevant periods of reversal are 19.0% from 1 April 2017 and 17.0% from 1 April 2020 in the UK; 27.9% in Italy; and 27.4% in Germany.

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

	2018 £m	2017 £m
Deferred tax assets	425	302
Deferred tax liabilities	(257)	(280)
	168	22

ii) Unrecognised deferred tax assets

	2018 £m	2017 £m
Tax losses arising from trading (gross 2018: £1,641 million, 2017: £1,630 million)	259	258
Tax losses arising from capital disposals and provisions against investments (gross 2018: £1,330 million, 2017: £1,383 million)	226	235
	485	493

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 2018, a deferred tax asset of £1 million (2017: £1 million) principally arising from UK trading losses in the Group has not been recognised. These losses can only be offset against taxable profits generated in the entities concerned. There is currently insufficient evidence to support the recognition of a deferred tax asset relating to these losses. The UK trading losses can be carried forward indefinitely.

At 30 June 2018, a deferred tax asset of £258 million (2017: £257 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 £257 million (2017: £256 million) with respect to the Group's former investment in KirchPayTV and £1 million (2017: £1 million) with respect to other subsidiaries. The KirchPayTV losses can be carried forward indefinitely.

At 30 June 2018, a deferred tax asset of £223 million (2017: £232 million) has not been recognised in respect of UK 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 2018, the Group also has UK capital losses with a tax value estimated to be £3 million (2017: £3 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.

Notes to the consolidated financial statements continued

16. Inventories

	2018 £m	2017 £m
Television programme rights	1,250	1,058
Set-top boxes and related equipment	48	36
Other inventories	7	19
Current inventory	1,305	1,113
Non-current programme distribution rights	109	63
Total inventory	1,414	1,176

At 30 June 2018, 74% (2017: 75%) of the television programme rights and 100% (2017: 100%) of set-top boxes and related equipment and other inventories are expected to be recognised in the income statement within 12 months.

Inventories with a carrying value of £13 million (2017: £3 million) were written-down in the year.

17. Trade and other receivables

	2018 £m	2017 £m
Gross trade receivables	588	533
Less: provision for impairment of receivables	(188)	(120)
Net trade receivables	400	413
Amounts receivable from joint ventures and associates	11	14
Amounts receivable from other related parties	13	24
Prepayments	678	498
Accrued income	553	429
VAT	2	2
Other receivables	72	95
Current trade and other receivables	1,729	1,475
Prepayments	11	16
Amounts receivable from joint ventures and associates	15	15
Other receivables	19	10
Non-current trade and other receivables	45	41
Total trade and other receivables	1,774	1,516

Included within current trade and other receivables is nil (2017: nil) which is due in more than one year.

The ageing of the Group's net trade receivables which are past due but not impaired is as follows:

	2018 £m	2017 £m
Up to 30 days past due date	59	57
30 to 60 days past due date	18	10
60 to 120 days past due date	19	8
120+ days past due date	3	5
	99	80

The Directors consider that the carrying amount of trade and other receivables approximates their fair values. The Group is exposed to credit risk on its trade and other receivables, however the Group does not have any significant concentrations of credit risk, with exposure spread over a large number of counterparties and customers. Trade receivables principally comprise amounts outstanding from subscribers, advertisers and other customers.

Provisions for doubtful debts

	2018 £m	2017 £m
Balance at beginning of year	120	96
Amounts utilised	(29)	(36)
Provided during the year	97	60
Balance at end of year	188	120

18. Trade and other payables

	2018 £m	2017 £m
Trade payables	1,907	1,612
Amounts owed to joint ventures and associates	23	9
Amounts owed to other related parties	175	193
VAT	169	168
Accruals	1,526	1,607
Deferred income	530	480
Other payables	256	234
Current trade and other payables	4,586	4,303
Trade payables	50	44
Amounts owed to other related parties	3	-
Deferred income	54	3
Other payables	34	40
Non-current trade and other payables	141	87
Total trade and other payables	4,727	4,390

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

19. Provisions

	At 1 July 2016 £m	Reclassified during the year £m	Provided (released) during the year £m	Utilised during the year £m	Foreign exchange movement £m	At 30 June 2017 £m	Reclassified during the year £m	Provided/ (released) during the year £m	Utilised during the year £m	Foreign exchange movement £m	At 30 June 2018 £m
Current liabilities											
Restructuring provision ¹	29	-	3	(19)	-	13	-	12	(4)	-	21
Customer-related provisions ²	65	-	-	(27)	-	38	-	-	(21)	-	17
Other provisions ³	87	4	17	(54)	2	56	2	45	(14)	-	89
	181	4	20	(100)	2	107	2	57	(39)	-	127
Non-current liabilities											
Other provisions	61	(4)	22	(32)	2	49	(2)	36	(35)	2	50
Employee benefit obligations ⁴	33	-	(1)	(1)	3	34	-	(1)	(2)	-	31
	94	(4)	21	(33)	5	83	(2)	35	(37)	2	81

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 2019.

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

Employee benefit obligations

	At 1 July 2016 £m	Pension payments £m	Actuarial gains £m	Foreign exchange movement £m	At 30 June 2017 £m	Pension payments £m	Actuarial gains £m	Foreign exchange movement £m	At 30 June 2018 £m
Sky Deutschland defined benefit obligations	14	-	(1)	1	14	-	-	-	14
Sky Italia employee benefit obligations	19	(1)	-	2	20	(3)	-	-	17
	33	(1)	(1)	3	34	(3)	-	-	31

19. Provisions (continued)

a) Sky Deutschland

Sky Deutschland operates unfunded final salary defined benefit pension plans that are not covered by plan assets. These plans were closed to future accrual. The total defined benefit obligation at 30 June 2018 was £14 million (2017: £14 million). The amount of the pension entitlement depends on the salary of the respective employee at the time of retirement. Employee benefit obligations will be funded out of current and future earnings.

The present value of the obligations was measured using the projected unit credit method applying the following principal assumptions:

- Actuarial projections (including assumptions about cost-of-living increases, salary increases, etc.) were made to value the future benefits expected to be paid by the post-employment plan in the event of mortality (both during and after employment), disability and early retirement. Seniority and rates of employee turnover as well as salary and benefit levels at the measurement date were also taken into account in projecting future benefits;
- The average present value at the measurement date has been calculated on the basis of the assumed annual discount rate and the probability of services being rendered;
- The following specific assumptions have been used:
 - Annual discount rate of 1.91% (2017: 1.95%);
 - Annual growth rate of 2.00% (2017: 2.00%);
 - Annual salary growth rate of 2.50% (2017: 2.50%); and
 - Annual fluctuation rate in employees of 7.00% (2017: 7.00%).

Since there are no plan assets as defined by IAS 19 (revised 2011) and all actuarial gains and losses are recognised when incurred, the present value of the defined benefit obligation of the pension obligations and the obligations similar to pensions is equivalent to the provision recognised on the balance sheet.

Reasonably possible changes to these assumptions would not have a material impact on the provision.

The weighted average maturity of the defined benefit obligation is 19 years (2017: 21 years) as of the balance sheet date.

Expected pension payments in the year to 30 June 2019 are less than £1 million (2017: less than £1 million).

b) Sky Italia

Sky Italia's employee benefit obligations relate to a provision for employee retirement, determined using actuarial techniques (as discussed further below) and regulated by Article 2120 of the Italian Civil Code. These plans were closed to future accrual. The total employee benefit obligation at 30 June 2018 was £17 million (2017: £20 million). The benefit is paid upon retirement as a lump sum, the amount of which corresponds to the total of the provisions accrued during the employees' service period based on payroll costs as revalued until retirement. Employee benefit obligations will be funded out of current and future earnings.

The present value of the obligations was measured using the projected unit credit method applying the following principal assumptions:

- Actuarial projections (including assumptions about cost-of-living increases, salary increases, etc.) were made to value the future benefits expected to be paid by the post-employment plan in the event of mortality (both during and after employment), disability and early retirement. Seniority and rates of employee turnover as well as salary and benefit levels at the measurement date were also taken into account in projecting future benefits;
- The average present value at the measurement date has been calculated on the basis of the assumed annual discount rate and the probability of services being rendered;
- The following specific assumptions have been used:
 - Annual discount rate of 0.00% (2017: 0.01%);
 - Annual inflation rate of 1.90% (2017: 1.20%);
 - Annual revaluation rate of 2.93% (2017: 2.40%);
 - Annual fluctuation rate in employees of 5.04% (2017: 3.74%); and
 - Annual mortality rate of 0.21% (2017: 0.43%).

Since there are no plan assets as defined by IAS 19 (revised 2011) and all actuarial gains and losses are recognised when incurred, the present value of the defined benefit obligation of the pension obligations and the obligations similar to pensions is equivalent to the provision recognised on the balance sheet.

Reasonably possible changes to these assumptions would not have a material impact on the provision.

The weighted average maturity of the defined benefit obligation is 15 years (2017: 15 years) as of the balance sheet date.

Expected pension payments in the year to 30 June 2019 are £2 million (2017: £2 million).

20. Borrowings

	2018 £m	2017 £m
Current borrowings		
Obligations under finance leases ⁽¹⁾	9	3
£400 million of 5.750% Guaranteed Notes repayable in October 2017 ⁽¹⁾	-	398
US\$750 million of 6.100% Guaranteed Notes repayable in February 2018 ⁽¹⁾	-	573
US\$582.8 million of 9.500% Guaranteed Notes repayable in November 2018 ⁽¹⁾	438	-
	447	974
Non-current borrowings		
US\$582.8 million of 9.500% Guaranteed Notes repayable in November 2018 ⁽¹⁾	-	436
US\$750 million of 2.625% Guaranteed Notes repayable in September 2019 ⁽¹⁾	561	575
€600 million of Guaranteed Floating Rate Notes repayable in April 2020 ⁽¹⁾	530	526
£450 million of 2.875% Guaranteed Notes repayable in November 2020 ⁽¹⁾	453	458
€1,500 million of 1.500% Guaranteed Notes repayable in September 2021 ⁽¹⁾	1,322	1,312
US\$800 million of 3.125% Guaranteed Notes repayable in November 2022 ⁽¹⁾	603	613
€850 million of 1.875% Guaranteed Notes repayable in November 2023 ⁽¹⁾	749	744
US\$1,250 million of 3.750% Guaranteed Notes repayable in September 2024 ⁽¹⁾	942	958
€500 million of 2.250% Guaranteed Notes repayable in November 2025 ⁽¹⁾	440	437
€1,000 million of 2.500% Guaranteed Notes repayable in September 2026 ⁽¹⁾	880	873
£300 million of 6.000% Guaranteed Notes repayable in May 2027 ⁽¹⁾	297	297
£300 million of 4.000% Guaranteed Notes repayable in November 2029 ⁽¹⁾	298	297
€400 million of 2.750% Guaranteed Notes repayable in November 2029 ⁽¹⁾	351	348
US\$350 million of 6.500% Guaranteed Notes repayable in October 2035 ⁽¹⁾	261	266
Obligations under finance leases ⁽¹⁾	67	67
	7,754	8,207

(1) Guaranteed Notes

At 30 June 2018, 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\$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%	-
	1,195	616	579		

	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%	-
	7,399	6,218	1,181		

Notes to the consolidated financial statements continued

20. Borrowings (continued)

At 30 June 2018, the Group had in issue the following Guaranteed Notes, which were issued by Sky Group Finance plc:

	Hedged Value* €m	Interest Rate Hedging		Hedged Interest Rates	
		Fixed €m	Floating €m	Fixed	Floating
US\$350 million of 6.500% Guaranteed Notes repayable in October 2035	200	200	-	5.864%	-
	200	200	-		

At 30 June 2017, the Group had in issue the following Guaranteed fixed and floating rate notes, which were issued by the Company:

	Hedged Value* €m	Interest Rate Hedging		Hedged Interest Rates	
		Fixed €m	Floating €m	Fixed	Floating
US\$750 million of 6.100% Guaranteed Notes repayable in February 2018	387	290	97	6.829%	6m LIBOR +1.892%
US\$582.8 million of 9.500% Guaranteed Notes repayable in November 2018	389	260	129	7.091%	6m LIBOR +5.542%
€450 million of 2.875% Guaranteed Notes repayable in November 2020	450	-	450	-	3m LIBOR +1.230%
€500 million of 2.250% Guaranteed Notes repayable in November 2025	356	356	-	3.721%	-
	1,582	906	676		

	Hedged Value* €m	Interest Rate Hedging		Hedged Interest Rates	
		Fixed €m	Floating €m	Fixed	Floating
US\$750 million of 2.625% Guaranteed Notes repayable in September 2019	581	-	581	-	3m EURIBOR +0.656%
€600 million of 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%	-
	7,399	6,218	1,181		

At 30 June 2017, the Group had in issue the following Guaranteed Notes, which were issued by Sky Group Finance plc:

	Hedged Value* €m	Interest Rate Hedging		Hedged Interest Rates	
		Fixed €m	Floating €m	Fixed	Floating
€400 million of 5.750% Guaranteed Notes repayable in October 2017	400	350	50	5.750%	6m LIBOR -0.229%
US\$350 million of 6.500% Guaranteed Notes repayable in October 2035	200	200	-	5.864%	-
	600	550	50		

* Hedged value is the final redemption value including any hedging

The Group has a Global Medium-Term Note Programme (the 'Programme'), which provides the Group with a standardised documentation platform for senior debt issuance of up to €5 billion in the major global bond markets. The €500 million of 2.250% Guaranteed Notes maturing in November 2025 and the €300 million of 6.000% Guaranteed Notes maturing in May 2027 have been issued under this Programme.

(ii) Finance leases

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

	2018 £m	2017 £m
Within one year	9	3
Between one and five years	39	14
After five years	28	53
Present value of finance lease liabilities	76	70
Within one year	1	5
Between one and five years	15	23
After five years	33	62
Future finance charges on finance lease liabilities	49	90
Within one year	10	8
Between one and five years	54	37
After five years	61	115
Minimum lease payments of finance lease liabilities	125	160

The main obligations under finance leases are in relation to:

- (a) finance arrangements in connection with the broadband network infrastructure. During the year, repayments of £8 million (2017: £8 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.
- (b) finance arrangements in connection with the contact centre in Dunfermline. During the year, repayments of £2 million (2017: £2 million) were made against the lease. A proportion of these payments have been allocated against the capital amount outstanding. The lease bears interest at a rate of 8.5% and expires in September 2020.
- (c) finance arrangements in connection with IT equipment. During the year repayments of nil (2017: nil) were made against the lease. The lease bears interest at a rate of between 1.45% and 1.78% and expires in September 2021.

(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 2018, the RCF was undrawn (2017: undrawn).

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

(iv) Guarantees

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

(v) Mobile handset financing

During the year, the Group entered into a securitisation facility with a third party for the sale of mobile handset receivables. The Group does not have control over the securitisation entity, and has transferred substantially all the risks and rewards of the receivables. As a result, the receivables have been derecognised and the securitisation entity is not consolidated within the Group's financial statements, such that the transfer of handset receivables is treated as a sale. Sales of mobile handset receivables resulted in proceeds of £86 million being recognised in cash flows from operating activities and associated costs of £11 million being recognised in financing costs in the year.

The securitisation entity was set up for the purpose of financing the purchase of mobile handset receivables from the Group. It is funded through the issue of two tranches of debt and a quasi-equity cash investment from the entity's control party. The debt comprises a senior tranche that is issued to a bank and the other, a junior tranche, which is issued to the Group.

The senior debt is funded by the bank's conduit, which in turn secures its funding in the commercial paper market. The Group receives a fixed rate of interest on its junior tranche, which is subordinated below the senior tranche but above the control party's investment and the entity's reserves.

Notes to the consolidated financial statements continued

20. Borrowings (continued)

The carrying value of the Group's investment in junior debt issued by the securitisation entity was £19 million, which is included within trade and other receivables. The carrying value represents the maximum exposure to losses in the unconsolidated entity, in the event that the receivables performed materially worse than anticipated. The Group acts as servicing agent to the securitisation entity and impairment risk associated with this investment is mitigated to the extent that performance in the collection of the receivables is in line with expectations. No impairment losses on the junior debt were recognised by the Group during the year. The Group has no future obligation to repurchase the receivables sold to the entity, or provide other financial support and/or liquidity to the entity.

In the current year, the Group sold £142 million of receivables to the securitisation entity, received less than £1 million in interest on its junior debt and received less than £1 million in fees for acting as the servicing agent for the securitisation entity's receivables.

(vi) Net debt

	As at 30 June 2017 £m	Cash Movements £m	Non-cash movements			As at 30 June 2018 £m
			Transfers £m	Foreign Exchange Movement £m	Fair Value Changes & other £m	
Current borrowings	974	(937)	450	(47)	7	447
Non-current borrowings	8,207	-	(450)	(18)	15	7,754
Borrowings-related derivative financial instruments	(470)	147	-	107	106	(110)
Gross debt	8,711	(790)	-	42	128	8,091
Cash and cash equivalents	(2,200)	586	-	(8)	-	(1,622)
Short-term deposits	(300)	300	-	-	-	-
Net debt	6,211	96	-	34	128	6,469

21. Derivatives and other financial instruments

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

	2018				2017			
	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	14	450	-	-	28	645	-	-
Cross-currency swaps	102	466	-	-	120	466	-	-
Cash flow hedges								
Cross-currency swaps	327	1,798	-	-	544	2,088	-	-
Forward foreign exchange contracts	44	1,634	(42)	1,639	48	2,335	(36)	1,340
Net investment hedges								
Cross-currency swaps	-	-	(398)	2,344	-	-	(353)	2,343
Derivatives not in a formal hedge relationship								
Cross-currency swaps	63	425	-	-	119	522	-	-
Forward foreign exchange contracts	2	356	(5)	718	2	417	(4)	532
Interest rate swaps	3	441	(1)	260	16	449	(4)	260
Embedded derivative	-	-	(4)	49	-	-	(7)	67
Total	555	5,570	(450)	5,010	877	6,922	(404)	4,542

The maturity of the derivative financial instruments is as follows:

	2018		2017	
	Asset £m	Liability £m	Asset £m	Liability £m
In one year or less	78	(20)	232	(19)
Between one and two years	114	(64)	93	(16)
Between two and five years	91	(135)	147	(63)
In more than five years	272	(231)	405	(306)
Total	555	(450)	877	(404)

The fair value of the Group's debt-related derivative portfolio at 30 June 2018 was a £110 million net asset (2017: net asset of £470 million) with notional principal amounts totalling £6,184 million (2017: £6,773 million). This comprised: net assets of £327 million designated as cash flow hedges (2017: net assets of £544 million), net assets of £116 million designated as fair value hedges (2017: net assets of £148 million), net liabilities of £398 million designated as net investment hedges (2017: net liabilities of £353 million) and net assets of £65 million not designated in a formal hedge relationship (2017: net assets of £131 million).

Hedge accounting classification and impact

The Group designated certain interest rate swaps as fair value hedges of interest rate risk and cross-currency swaps as fair value hedges of interest rate risk and foreign exchange risk, representing 15% (2017: 16%) of the total debt related derivative portfolio. Movements in the fair value of the hedged items are taken to the income statement and are offset by movements in the fair value of the hedging instruments, to the extent that hedge accounting is achieved.

The Group designated certain fixed rate cross-currency swaps as cash flow hedges, representing 29% (2017: 31%) of the total debt related derivative portfolio. As such, the effective portion of the gain or loss on these contracts is reported as a separate component of the hedging reserve, and is then reclassified to the income statement in the same periods that the forecast transactions affect the income statement. Cash flows on the swaps occur semi-annually up to and inclusive of the relevant bond maturity disclosed in note 20. During the current year, losses of £64 million were removed from the hedging reserve and debited to finance costs in the income statement principally to offset the currency translation movements in the underlying hedged debt (2017: gains of £76 million).

The Group designated certain cross-currency swaps as net investment hedges, representing 38% (2017: 35%) of the total debt related derivative portfolio. Exchange differences arising from the translation of the net investment in foreign operations are recognised directly in equity. Gains and losses on those hedging instruments (which include bonds and cross-currency swaps) designated as hedges of the net investments in foreign operations are recognised in equity to the extent that the hedging relationship is effective; these amounts are as stated in the statement of comprehensive income. Gains and losses relating to hedge ineffectiveness are recognised immediately in the income statement for the period. Gains and losses accumulated in the foreign currency translation reserve are included in the income statement when the foreign operation is disposed of.

The Group designates certain forward foreign exchange contracts as cash flow hedges of forecast foreign currency sales and purchases. Gains or losses are released from the hedging reserve and included in the income statement when the related hedged items are recognised in the income statement or in the initial cost or other carrying amount of the non-financial asset or liability on the balance sheet, again being recognised in the income statement in the same periods as the related hedged items. If forecast transactions are no longer expected to occur, any amounts included in the hedging reserve related to that forecast transaction would be recognised directly in the income statement. During the current year, losses of £60 million were removed from the hedging reserve and debited to finance charges principally to offset the currency translation movements in the underlying hedged debt (2017: gains of £8 million). Gains of £27 million were removed from the hedging reserve and credited to inventories in the balance sheet (2017: gains of £105 million) and gains of £47 million were removed from the hedging reserve and credited to property, plant and equipment in the balance sheet (2017: gains of £63 million). Losses of £3 million were removed from the hedging reserve and debited against intangibles in the balance sheet (2017: losses of £3 million). Losses of £4 million were removed from the hedging reserve and debited against revenue in the income statement (2017: gains of less than £1 million).

Hedge effectiveness testing is performed quarterly using the dollar-offset approach. The actual movement in the hedging items is compared with the movement in the valuation of the hypothetically perfect hedge of the underlying risk at inception, and any ineffectiveness is recognised directly in the income statement. For fair value hedges, ineffectiveness of less than £1 million was recognised in the income statement during the current year (2017: £1 million). For cash flow hedges, ineffectiveness of less than £1 million was recognised in the income statement during the current year (2017: less than £1 million). For net investment hedges, ineffectiveness of nil was recognised in the income statement during the current year (2017: nil).

A hedge relationship is deemed to be effective if the ratio of changes in valuation of the underlying hedged item and the hedging instrument is within the range of 80% to 125%. Any relationship which has a ratio outside this range is deemed to be ineffective, at which point hedge accounting is suspended. During the year ended 30 June 2018, there was one instance in which the hedge relationship was not highly effective (2017: one instance).

Notes to the consolidated financial statements continued

21. Derivatives and other financial instruments (continued)

Financial instruments

(a) Carrying value and fair value

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

	Held to maturity investments £m	Available- for-sale £m	Derivatives deemed held for trading £m	Derivatives in hedging relationships £m	Loans and receivables £m	Other liabilities £m	Total carrying value £m	Total fair value £m
At 30 June 2018								
Quoted bond debt	-	-	-	-	-	(8,125)	(8,125)	(8,584)
Derivative financial instruments	-	-	58	47	-	-	105	105
Trade and other payables	-	-	-	-	-	(3,887)	(3,887)	(3,887)
Provisions	-	-	-	-	-	(143)	(143)	(143)
Obligations under finance leases and other borrowings	-	-	-	-	-	(76)	(76)	(76)
Available-for-sale investments	-	117	-	-	-	-	117	117
Trade and other receivables	-	-	-	-	1,031	-	1,031	1,031
Short-term deposits	-	-	-	-	-	-	-	-
Cash and cash equivalents	-	-	-	-	1,622	-	1,622	1,622
At 30 June 2017								
Quoted bond debt	-	-	-	-	-	(9,111)	(9,111)	(9,701)
Derivative financial instruments	-	-	122	351	-	-	473	473
Trade and other payables	-	-	-	-	-	(3,637)	(3,637)	(3,637)
Provisions	-	-	-	-	-	(160)	(160)	(160)
Obligations under finance leases and other borrowings	-	-	-	-	-	(70)	(70)	(70)
Available-for-sale investments	-	110	-	-	-	-	110	110
Trade and other receivables	-	-	-	-	1,325	-	1,325	1,325
Short-term deposits	300	-	-	-	-	-	300	300
Cash and cash equivalents	-	-	-	-	2,200	-	2,200	2,200

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 2018 and 30 June 2017. The volatile nature of the markets means that values at any subsequent date could be significantly different from the values reported above.

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

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

(b) Fair value hierarchy

The following table categorises the Group's financial instruments which are held at fair value into one of three levels to reflect the degree to which observable inputs are used in determining their fair values:

	Fair value £m	Level 1 £m	Level 2 £m	Level 3 £m
At 30 June 2018				
Financial assets				
Available-for-sale financial instruments				
Other investments	117	-	-	117
Financial assets at fair value through profit or loss				
Interest rate swaps	17	-	17	-
Cross-currency swaps	492	-	492	-
Forward foreign exchange contracts	46	-	46	-
Total	672	-	555	117
Financial liabilities				
Financial liabilities at fair value through profit or loss				
Interest rate swaps	(1)	-	(1)	-
Cross-currency swaps	(398)	-	(398)	-
Forward foreign exchange contracts	(47)	-	(47)	-
Embedded derivative	(4)	-	(4)	-
Total	(450)	-	(450)	-
At 30 June 2017				
Financial assets				
Available-for-sale financial instruments				
Other investments	110	-	-	110
Financial assets at fair value through profit or loss				
Interest rate swaps	44	-	44	-
Cross-currency swaps	783	-	783	-
Forward foreign exchange contracts	50	-	50	-
Total	987	-	877	110
Financial liabilities				
Financial liabilities at fair value through profit or loss				
Interest rate swaps	(4)	-	(4)	-
Cross-currency swaps	(353)	-	(353)	-
Forward foreign exchange contracts	(40)	-	(40)	-
Embedded derivative	(7)	-	(7)	-
Total	(404)	-	(404)	-

Level 1

Fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities, including shares in listed entities.

Level 2

Fair values measured using inputs, other than quoted prices included within Level 1, that are observable for the asset or liability either directly or indirectly. Derivative financial instrument fair values are present values determined from future cash flows discounted at rates derived from market source data.

Level 3

Fair values measured using inputs for the asset or liability that are not based on observable market data. All of the Group's unlisted available-for-sale financial assets are held at fair value and are categorised as Level 3 in the fair value hierarchy.

22. Financial risk management

Group Treasury activity

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

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

Interest rate risk

The Group has financial exposures to 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 2018, 80% of borrowings were held at fixed rates after hedging (2017: 80%).

The Group uses derivatives to convert all of its US dollar-denominated debt and associated interest rate obligations to pounds sterling or euros (see section on foreign exchange risk for further detail). At 30 June 2018, the Group had no net US dollar denominated interest rate exposure on its borrowings (2017: none).

The Group designates certain interest rate swaps as hedges of interest rate risk and certain cross-currency swaps as fair value hedges of both interest rate risk and currency risk. Movements in the fair value of the hedged exposure are taken to the income statement and are offset by movements in the fair value of the hedging instruments, which are also taken to the income statement. Any hedge ineffectiveness is recognised directly in the income statement. In the year ended 30 June 2018, this amounted to less than £1 million (2017: £1 million).

At 30 June 2018 and 30 June 2017, 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 2018.

- The Group's profit for the year ended 30 June 2018 would increase or decrease by £30 million (2017: profit for the year would increase or decrease by £39 million).
- Other equity reserves would decrease or increase by £15 million (2017: decrease or increase by £26 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 2018, the split of the Group's aggregate borrowings into their core currencies was US dollar 34%, euros 52% and pounds sterling 14% (2017: US dollar 38%, euros 46% and pounds sterling 16%). At 30 June 2018, 18% of the Group's long-term borrowings, after the impact of derivatives, are denominated in pounds sterling and 82% in euros (2017: 25% in pounds sterling and 75% 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 36% of operating expenses (£4,559 million) were denominated in euros (2017: approximately 35% (£4,167 million)) and approximately 9% of operating expenses (£1,070 million) were denominated in US dollars (2017: approximately 9% (£1,056 million)). In the current year, approximately 38% of revenues (£5,124 million) were denominated in euros (2017: 37% (£4,832 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 functional 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 (2017: surplus).

The Group hedges currency exposures on US dollar denominated highly probable cash flows by using forward foreign exchange contracts purchased up to five years ahead of the cash flow and currently does not hedge transactional euro exposures arising in the UK.

It is the Group's policy that all US dollar foreign currency exposures are substantially hedged in advance of the year in which they occur.

At 30 June 2018, the Group had purchased forward foreign exchange contracts representing:

- Approximately 88% of US dollar-denominated costs falling due within one year (2017: 87%), and on a declining basis across five-year planning horizon are hedged via:
 - Outstanding commitments to purchase, in aggregate, US\$2,661 million (2017: US\$2,714 million) at an average rate of US\$1.36 to £1.00 (2017: US\$1.34 to £1.00).
 - Outstanding commitments to purchase, in aggregate, US\$1,706 million (2017: US\$1,669 million) at an average rate of US\$1.22 to £1.00 (2017: US\$1.17 to £1.00).
- In respect of the UK legacy euro hedging programme and to hedge current balance sheet exposures:
 - Outstanding commitments to sell, in aggregate, £726 million (2017: £760 million) at an average rate of €1.14 to £1.00 (2017: €1.15 to £1.00).
 - Outstanding commitments to purchase, in aggregate, €335 million (2017: €444 million) at an average rate of €1.13 to £1.00 (2017: €1.15 to £1.00).
- In respect of the Group's European subsidiaries to hedge their material non-functional currency exposures:
 - Outstanding commitment to purchase, in aggregate, £65 million (2017: £73 million) at an average rate of £0.87 to €1.00 (2017: £0.84 to €1.00).

No forward foreign exchange contracts fall due beyond five years (2017: nil).

The Group designates the following as cash flow hedges for hedge accounting purposes.

- Forward foreign exchange contracts
- Cross-currency swaps where interest on both legs is at a fixed interest rate

As such, the effective portion of the gain or loss on these contracts is reported as a component of the hedging reserve, outside the income statement, and is then reclassified to the income statement in the same periods that the forecast transactions affect the income statement. Ineffectiveness of less than £1 million was recognised in the income statement during the year (2017: less than £1 million).

A combination of US dollar denominated interest rate and US dollar/pound sterling cross-currency swaps is used to convert fixed dollar denominated debt to floating sterling denominated debt. The interest rate swaps are designated as fair value hedges. The associated cross-currency swaps are not designated as hedging instruments for hedge accounting purposes and, as such, movements in their value are recorded directly in the income statement.

Foreign exchange sensitivity

The following analysis details the Group's sensitivity to movements in pounds sterling and euros against those currencies in which it has significant transactions. The sensitivity analysis includes foreign currency denominated assets and liabilities at the balance sheet date and outstanding foreign currency denominated financial instruments and adjusts their translation at the period end for a 25% change in foreign currency rates.

A 25% strengthening in pounds sterling against the US dollar would have the effect of decreasing profit by £11 million (2017: decreasing profit by £18 million), none of which relates to non-cash movements in the valuation of derivatives (2017: losses of £5 million). The same strengthening would have an adverse impact on other equity of £366 million (2017: adverse impact of £436 million).

A 25% weakening in pounds sterling against the US dollar would have the effect of increasing profit by £19 million (2017: increasing profit by £30 million), none of which relates to non-cash movements in the valuation of derivatives (2017: gains of £9 million). The same weakening would have a beneficial impact on other equity of £611 million (2017: beneficial impact of £727 million).

A 25% strengthening in pounds sterling against the euro would have the effect of increasing profit by £63 million (2017: increasing profit by £75 million) of which gains of £73 million relate to non-cash movements in the valuation of derivatives (2017: gains of £80 million). The same strengthening would have a beneficial impact on other equity of £17 million (2017: beneficial impact of £45 million).

A 25% weakening in pounds sterling against the euro would have the effect of decreasing profit by £108 million (2017: decreasing profit by £123 million) of which losses of £122 million relate to non-cash movements in the valuation of derivatives (2017: losses of £133 million). The same weakening would have an adverse impact on other equity of £29 million (2017: adverse impact of £76 million).

A 25% strengthening in the euro against the US dollar would have the effect of increasing profit by €6 million (2017: increasing profit by €8 million), none of which relates to non-cash movements in the valuation of derivatives. The same strengthening would have an adverse impact on other equity of €272 million (2017: €272 million).

A 25% weakening in the euro against the US dollar would have the effect of decreasing profit by €10 million (2017: decreasing profit by €13 million), none of which relates to non-cash movements in the valuation of derivatives. The same weakening would have a beneficial impact on other equity of €453 million (2017: €453 million).

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

Notes to the consolidated financial statements continued

22. Financial risk management (continued)

Hedge accounting

The interest rate and foreign exchange rate risk sections above outline the Group's policies regarding use of derivative products. Further detail on valuations and the impact of hedge accounting during the year are provided in note 21.

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 6% of the total asset value of instruments at the end of the year. Treasury policies ensure that all derivative transactions are only effected with strong relationship banks and, at the date of signing, each 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 less than £1 million (2017: £2 million).

Credit risk in our residential customer base is mitigated by billing and collecting in advance for digital television subscriptions for the majority of our residential customer base. The Group's maximum exposure to credit risk on trade receivables is the carrying amounts as disclosed in note 17.

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 2018, this facility was undrawn (30 June 2017: 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 2018, 46% (2017: 54%) of the Group's total available funding (including available undrawn amounts on our RCF) was due to mature in more than five years.

Full details of the Group's borrowings and undrawn facilities are shown in note 20, other than trade and other payables, shown in note 18, and provisions, shown in note 19.

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

	Less than 12 months £m	Between one and two years £m	Between two and five years £m	More than five years £m
At 30 June 2018				
Non-derivative financial liabilities				
Bonds – USD	549	647	811	1,481
Bonds – EUR	78	609	1,534	2,632
Bonds – GBP	43	43	553	756
Obligations under finance leases and other borrowings	10	26	28	61
Trade and other payables	3,853	21	10	13
Provisions	88	20	21	16
Net settled derivatives				
Financial assets	(7)	(5)	(9)	–
Gross settled derivatives				
Outflow	2,962	2,033	2,370	3,294
Inflow	(3,074)	(2,151)	(2,497)	(3,522)

	Less than 12 months £m	Between one and two years £m	Between two and five years £m	More than five years £m
At 30 June 2017				
Non-derivative financial liabilities				
Bonds - USD	744	558	804	2,186
Bonds - EUR	78	78	2,073	2,671
Bonds - GBP	466	43	566	786
Obligations under finance leases and other borrowings	8	14	23	115
Trade and other payables	3,475	132	20	19
Provisions	102	38	5	15
Net settled derivatives				
Financial assets	(24)	(11)	(16)	-
Gross settled derivatives				
Outflow	2,988	1,565	2,432	4,515
Inflow	(3,257)	(1,697)	(2,639)	(4,868)

Capital risk management

The Group's objectives when managing capital are to endeavour to ensure that the Group has the ability to access capital markets when necessary and to optimise liquidity and operating flexibility through the arrangement of new debt, while seeking to minimise the cost of capital. The Group monitors its liquidity requirements regularly and is satisfied that it has access to sufficient liquidity and operating flexibility to meet its capital requirements.

The Group manages its short and long-term capital structure by seeking to maintain leverage ratios consistent with a long-term investment grade credit rating (BBB- or better from Standard & Poor's and Baa3 or better from Moody's). The Group's current ratings are BBB (Standard & Poor's) and Baa2 (Moody's) with developing outlook, following the offers from 21st Century Fox and Comcast. The leverage ratio assessed by Standard & Poor's is Net Debt: EBITDA and the leverage ratio assessed by Moody's is Gross Debt: EBITDA. Net Debt is defined as total borrowings, including the cash flows arising under operating leases and transponder commitments, less cash and cash equivalents, excluding derivatives. Gross Debt does not reduce total borrowings by the inclusion of cash and cash equivalents.

The Group is also required to maintain a Net Debt: EBITDA ratio below 4.00:1 and an EBITDA to Net Interest Payable ratio at above 3.50:1 under the terms of its RCF. The RCF definition of Net Debt does not require the inclusion of future operating lease or transponder cash flows.

At 30 June 2018, the Net Debt: EBITDA ratio as defined by the terms of the RCF was 2.71 (2017: 2.71), and the EBITDA to Net interest Payable ratio was 10.8:1 (2017: 10.1:1).

23. Share capital

	2018 £m	2017 £m
Allotted, called-up and fully paid shares of 50p 1,719,017,230 (2017: 1,719,017,230)	860	860

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

Share option and contingent share award schemes

The Company operates various equity-settled share option schemes (the 'Schemes') for certain employees.

The number of newly issued shares which may be allocated under the Schemes on any day shall not, when aggregated with the number of newly issued shares which have been allocated in the previous 10 years under the Schemes and any other employee share scheme adopted by the Company, exceed such number as represents 5% of the ordinary share capital of the Company in issue immediately prior to that day. In determining this limit no account shall be taken of any newly issued shares where the right to acquire the newly issued shares was released, lapsed, cancelled or otherwise became incapable of exercise. Options and awards which will be satisfied by ESOP shares do not fall within these headroom limits.

23. Share capital (continued)

The share awards outstanding can be summarised as follows:

	2018 Number of ordinary shares	2017 Number of ordinary shares
Sharesave Scheme options ⁽ⁱ⁾	10,682,312	10,067,153
Management LTIP awards ⁽ⁱⁱ⁾	17,020,119	26,796,977
LTIP awards ⁽ⁱⁱ⁾	7,053,300	10,231,050
Management Co-Investment LTIP awards ^(iv)	2,533,942	2,401,177
Co-Investment LTIP awards ^(v)	2,472,327	2,113,684
	39,762,000	51,610,041

(i) Sharesave Scheme options

All Sharesave Scheme options outstanding at 30 June 2018 and 30 June 2017 have no performance criteria attached, other than the requirement that the employee remains in employment with the Group. Options granted under the Sharesave Scheme must be exercised within six months of the relevant award vesting date.

The Sharesave Scheme is open to all employees across the Group. Options are normally exercisable after either three or five years from the date of grant. The price at which options are offered is not less than 80% of the middle-market price on the dealing day immediately preceding the date of invitation. It is the policy of the Group to make an invitation to employees to participate in the scheme following the announcement of the end of year results.

(ii) Management LTIP awards

All Management LTIP awards outstanding at 30 June 2018 and 30 June 2017 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 2018 and 30 June 2017 vest only if performance conditions are met. Awards granted under the LTIP must be exercised within five years of the relevant award vesting date.

The Company operates the LTIP for Executive Directors and Senior Executives. Awards under the scheme are granted in the form of a nil-priced option. The awards vest in full or in part dependent on the satisfaction of specified performance targets. For awards granted from July 2012 onwards, 30% of the award vested dependent on TSR performance over a three-year performance period, relative to the constituents of the FTSE 100 at the time of grant, and the remaining 70% vested dependent on performance against operational targets.

For awards that vested in 2017, the TSR performance condition was removed and replaced with operational performance targets.

This was treated as a modification to the relevant awards. The fair value of the modified equity settled share options at the time of modification was calculated using methodologies that are consistent with the calculation of the fair value of equity-settled share options granted during the year as explained in the section titled 'Information for awards granted during the year'.

(iv) Management Co-Investment LTIP awards

All Management Co-Investment LTIP awards outstanding at 30 June 2018 and 30 June 2017 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 2018 and 30 June 2017 vest only if performance conditions are met. Awards granted under the Co-Investment LTIP must be exercised within five years of the relevant award vesting date.

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

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

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

	Sharesave Scheme		Senior Management Schemes		Total	
	Number	Weighted average exercise price £	Number	Weighted average exercise price £	Number	Weighted average exercise price £
Outstanding at 1 July 2016	9,212,906	7.20	29,840,597	0.00	39,053,503	1.70
Granted during the year	5,504,516	6.88	14,153,402	0.00	19,657,918	1.93
Exercised during the year	(2,454,177)	6.22	(1,608,378)	0.00	(4,062,555)	3.75
Forfeited during the year	(2,180,817)	7.58	(842,733)	0.00	(3,023,550)	5.47
Expired during the year	(15,275)	5.80	-	-	(15,275)	5.80
Outstanding at 30 June 2017	10,067,153	7.19	41,542,888	0.00	51,610,041	1.40
Granted during the year	4,196,356	7.52	13,414,387	0.00	17,610,743	1.79
Exercised during the year	(1,980,098)	6.96	(24,821,249)	0.00	(26,801,347)	0.51
Forfeited during the year	(1,583,430)	7.30	(1,056,338)	0.00	(2,639,768)	4.38
Expired during the year	(17,669)	6.77	-	-	(17,669)	6.77
Outstanding at 30 June 2018	10,682,312	7.35	29,079,688	0.00	39,762,000	1.97

The weighted average market price of the Group's shares at the date of exercise for share options exercised during the year was £9.89 (2017: £9.46). For those exercised under the Sharesave Scheme it was £10.80 (2017: £9.93), and for those exercised under the Senior Management Schemes it was £9.82 (2017: £8.76).

The middle-market closing price of the Company's shares at 29 June 2018 was £14.62 (30 June 2017: £9.94).

The following table summarises information about share awards outstanding at 30 June 2018

	Sharesave Scheme		Senior Management Schemes		Total	
	Number	Weighted average remaining contractual life Years	Number	Weighted average remaining contractual life Years	Number	Weighted average remaining contractual life Years
Range of exercise prices						
£0.00 - £1.00	-	-	29,079,688	6.0	29,079,688	6.0
£1.00 - £2.00	4,528,036	2.3	-	-	4,528,036	2.3
£2.00 - £3.00	4,250,893	3.4	-	-	4,250,893	3.4
£3.00 - £4.00	1,903,383	1.4	-	-	1,903,383	1.4
	10,682,312	2.6	29,079,688	6.0	39,762,000	5.1

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

	Sharesave Scheme		Senior Management Schemes		Total	
	Number	Weighted average remaining contractual life Years	Number	Weighted average remaining contractual life Years	Number	Weighted average remaining contractual life Years
Range of exercise prices						
£0.00 - £1.00	-	-	41,542,888	5.7	41,542,888	5.7
£1.00 - £2.00	43,754	0.1	-	-	43,754	0.1
£2.00 - £3.00	5,588,271	3.2	-	-	5,588,271	3.2
£3.00 - £4.00	2,171,995	1.5	-	-	2,171,995	1.5
£4.00 - £5.00	2,263,133	2.4	-	-	2,263,133	2.4
	10,067,153	2.6	41,542,888	5.7	51,610,041	5.1

The range of exercise prices of the awards outstanding at 30 June 2018 was between nil and £8.17 (2017: nil and £8.17). For those outstanding under the Sharesave Scheme it was between £6.08 and £8.17 (2017: £5.08 and £8.17) and for all awards outstanding under the Senior Management Schemes the exercise price was nil (2017: nil).

Notes to the consolidated financial statements continued

23. Share capital (continued)

The following table summarises additional information about the awards exercisable at 30 June 2018 and 30 June 2017:

	2018			2017		
	Options exercisable at 30 June	Average remaining contractual life of exercisable options	Weighted average exercise price £	Options exercisable at 30 June	Average remaining contractual life of exercisable options	Weighted average exercise price £
Sharesave Scheme	49,465	0.1	6.89	117,600	0.1	6.17
Senior Management Schemes	1,236,343	3.8	0.00	474,940	2.9	0.00
	1,285,808	3.7	0.27	592,540	2.4	1.23

Information for awards granted during the year

The weighted average fair value of equity-settled share options granted during the year, as estimated at the date of grant, was £6.42 (2017: £5.54). This was calculated using the Black-Scholes share option pricing model except for awards which have market-based performance conditions, where a Monte-Carlo simulation model was used, and for grants of nil-priced options, which were treated as the award of a free share. The fair value of nil-priced options granted during the year was measured on the basis of the market-price of the Company's shares on the date of grant, discounted for expected dividends which would not be received over the vesting period of the options.

The Monte-Carlo simulation model reflected the historical volatilities of the Company's share price and those of all other companies to which the Company's performance would be compared, over a period equal to the vesting period of the awards.

Expected volatility was determined by calculating the historical volatility of the Company's share price, over a period equal to the expected life of the options. Expected life was based on the contractual life of the awards and adjusted, based on management's best estimate, for the effects of exercise restrictions and behavioural considerations.

(i) Sharesave Scheme

The weighted average fair value of equity-settled share awards granted during the year under the Sharesave Scheme, as estimated at the date of grant, was £2.23 (2017: £1.19). This was calculated using the Black-Scholes share option pricing model.

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

	2018	2017
Share price	£9.30	£8.35
Exercise price	£7.52	£6.88
Expected volatility	23%	21%
Expected life	3.8 years	3.9 years
Expected dividends	1.6%	3.4%
Risk-free interest rate	0.7%	0.2%

(ii) Senior Management Schemes

The weighted average fair value of equity-settled share awards granted during the year under the Senior Management Schemes, as estimated at the date of grant, was £7.72 (2017: £7.23). 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:

	2018	2017
Share price	£9.67	£9.12
Exercise price	£0.00	£0.00
Expected volatility	24%	20%
Expected life	2.1 years	3.0 years
Expected dividends	2.9%	3.3%
Risk-free interest rate	0.1%	0.2%

24. Shareholders' equity

	2018 £m	2017 £m
Share capital	860	860
Share premium	2,704	2,704
ESOP reserve	(9)	(78)
Hedging reserve	(35)	86
Other reserves	322	364
Retained earnings	174	(98)
	4,016	3,838

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

	Total number of shares purchased ¹	Average price paid per share £
July	18,152,151	9.73
August	2,057,607	9.72
September	380,993	9.61
October	-	-
November	-	-
December	-	-
January	-	-
February	-	-
March	-	-
April	-	-
May	-	-
June	-	-
Total for the year ended 30 June 2018	20,590,751	9.72

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

Share premium and special reserve

On 10 December 2003, the High Court approved a reduction in the Company's share premium account of £1,120 million, as approved by the Company's shareholders at the AGM held on 14 November 2003. This amount was equal to the Company-only profit and loss account reserve deficit at 30 June 2003. As part of the application, the Company's balance sheet at 30 September 2003 was required to be presented. At that date, the deficit on the Company-only profit and loss account reserve had reduced by £14 million since 30 June 2003, to £1,106 million. As a condition of the reduction, the reduction in the share premium account of £1,120 million was permitted to be offset against the profit and loss account reserve by the amount of the deficit at 30 September 2003. The excess of £14 million was credited to a special reserve, which is included in other reserves, and, under the terms of the reduction, will remain undistributable until all the creditors of the Company and its guarantors (as at 10 December 2003) are paid.

ESOP reserve

The cost of the Company's ordinary shares held by the Group's ESOP is treated as a deduction in arriving at total shareholders' equity. The movement in the ESOP reserve was as follows:

	Number of ordinary shares	Average price paid per share	£m
At 1 July 2016	10,926,479	£11.49	125
Share options exercised during the year	(4,062,555)	£11.56	(47)
At 30 June 2017	6,863,924	£11.46	78
Share options exercised during the year	(26,476,347)	£10.17	(269)
Shares purchased by the ESOP during the year	20,590,751	£9.72	200
At 30 June 2018	978,328	£9.69	9

Notes to the consolidated financial statements continued

24. Shareholders' equity (continued)

Hedging reserve

Changes in the fair values of derivatives that are designated as cash flow hedges are initially recognised in the hedging reserve, and subsequently recognised in the income statement when the related hedged items are recognised in the income statement, or in the initial cost or other carrying amount of the non-financial asset or liability on the balance sheet, again being recognised in the income statement in the same periods as the related hedged items. In addition, deferred taxation relating to these derivatives is also initially recognised in the hedging reserve prior to transfer to the income statement.

Other reserves

The Group's other reserves include a capital redemption reserve, a merger reserve, a foreign currency translation reserve and a special reserve. The capital redemption reserve was £190 million as at 30 June 2018 (2017: £190 million). The merger reserve was £125 million as at 30 June 2018 (2017: £125 million). The special reserve was £14 million as at 30 June 2018 (2017: £14 million). The foreign currency translation reserve was £(5) million as at 30 June 2018 (2017: £37 million). Other reserves also includes the accumulated actuarial movement on employee benefit obligations of £(2) million (2017: £(2) million).

Reconciliation of movements in the foreign currency translation reserve

	2018 £m	2017 £m
At 1 July	37	(24)
Net investment hedges	(42)	(335)
Exchange differences on translation of foreign operations	-	396
At 30 June	(5)	37

Merger reserve

The merger reserve was created in accordance with the merger relief provisions under section 131 of the Companies Act 1985 (as amended) and section 612 of the Companies Act 2006 relating to the accounting for business combinations involving the issue of shares at a premium. Merger relief provided relief from the requirement to create a share premium account in a parent company's balance sheet. In preparing consolidated financial statements, the amount by which the fair value of the shares issued exceeded their nominal value was recorded within a merger reserve on consolidation, rather than in a share premium account. This merger reserve was retained upon transition to IFRS, as allowed under UK law.

The merger reserve, which is included in other reserves, was created as a result of the purchase by the Group of interests in two entities. Sports Internet Group ('SIG') was purchased on 12 July 2000, where consideration was paid by the issue of equity shares in the Company. BiB was purchased between 28 June 2001 and 11 November 2002, where consideration was paid by the issue of equity shares in the Company. Following the Group's disposal of a controlling stake in Sky Bet, the merger reserve in relation to the purchase of SIG was transferred to retained earnings. At 30 June 2018, the Group's merger reserve was £125 million (2017: £125 million).

25. Notes to the consolidated cash flow statement

Reconciliation of profit before tax to cash generated from operations

	2018 £m	2017 £m
Profit before tax	864	803
Depreciation, impairment and losses (profits) on disposal of property, plant and equipment	430	366
Amortisation, impairment and losses (profits) on disposal of intangible assets	644	606
Share-based payment expense	94	147
Investment income	(11)	(22)
Finance costs	286	204
Share of results of joint ventures and associates	(56)	(21)
Profit on disposal of available-for-sale investment	(49)	-
	2,202	2,083
Increase in trade and other receivables	(267)	(103)
Increase in inventories	(198)	(176)
Increase in trade and other payables	282	278
Increase (decrease) in provisions	21	(89)
(Decrease) increase in derivative financial instruments	(130)	261
Cash generated from operations	1,910	2,254

26. 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 2018 £m	Total at 30 June 2017 £m
Television programme rights	4,873	12,311	674	17,858	14,688
Set-top boxes and related equipment	262	2	-	264	411
Third-party payments ¹	317	492	-	809	893
Transponder capacity ²	203	555	204	962	926
Property, plant and equipment	13	11	4	28	41
Intangible assets ³	29	49	2	80	101
Smartcards ³	43	72	-	115	206
Other	653	598	134	1,385	1,139
	6,393	14,090	1,018	21,501	18,405

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

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

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

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

b) Contingencies and guarantees

Certain subsidiaries of the Company have agreed to provide additional funding to several of their investments in limited and unlimited companies and partnerships, in accordance with funding agreements. Payment of this additional funding would be required if requested by the investees in accordance with the funding agreements. The maximum potential amount of future payments which may be required to be made by the subsidiaries of the Company to their investments, in both limited and unlimited companies and partnerships under the undertakings and additional funding agreements, is £17 million (2017: £30 million).

The Group has guarantees in place relating to the Group's borrowings, see note 20.

27. Operating lease commitments

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

	2018 £m	2017 £m
Within one year	62	61
Between one and five years	191	168
After five years	204	206
	457	435

The majority of operating leases relate to property. The rents payable under these leases are subject to renegotiation at the various intervals specified in the leases.

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

	2018 £m	2017 £m
Within one year	-	1
	-	1

Sub-lease rentals primarily relate to property leases.

28. Transactions with related parties and major shareholders

a) Entities with joint control or significant influence

During the year the Group conducted business transactions with companies that form part of the 21st Century Fox, Inc. group, a major shareholder in the Company.

Transactions with related parties and amounts outstanding in relation to those transactions and with related parties at 30 June are as follows.

	2018 £m	2017 £m
Supply of goods or services by the Group	48	41
Purchases of goods or services by the Group	(407)	(413)
Amounts owed to the Group	13	24
Amounts owed by the Group	(178)	(193)

Notes to the consolidated financial statements continued

28. Transactions with related parties and major shareholders (continued)

At 30 June 2018 the Group had expenditure commitments of £568 million in relation to transactions with related parties (2017: £359 million) which principally related to minimum television programming rights commitments.

Goods and services supplied

During the year, the Group supplied programming, airtime, transmission and marketing services to 21st Century Fox, Inc. companies.

Purchases of goods and services and certain other relationships

During the year, the Group purchased programming and technical and marketing services from 21st Century Fox, Inc. companies.

There is an agreement between 21st Century Fox, Inc. and the Group, pursuant to which it was agreed that, for so long as 21st Century Fox, Inc. directly or indirectly holds an interest of 30% or more in the Group, 21st Century Fox, Inc. will not engage in the business of satellite broadcasting in the UK or Ireland.

The sale and purchase agreements for the acquisitions of Sky Italia Srl and Sky Deutschland AG contained certain commitments from 21st Century Fox, Inc. not to retail certain services to consumers in certain territories until 1 January 2017. The sale and purchase agreement for the National Geographic channel contained undertakings from the Company not to compete with the business of the National Geographic Channel International until 1 January 2017.

On 15 December 2016, the Company entered into a co-operation agreement with 21st Century Fox pursuant to which the parties agreed to provide each other with information and assistance for the purposes of obtaining all merger control and regulatory clearances and authorisations in relation to the 21st Century Fox Offer and the preparation of the document to be sent to the Company's shareholders in relation to the Original 21st Century Fox Offer. The co-operation agreement was terminated by the Company on 25 April 2018 after the Independent Committee withdrew its recommendation of the Original 21st Century Fox Offer. Notwithstanding such termination, certain obligations under the co-operation agreement continue in effect.

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.

	2018 £m	2017 £m
Supply of services by the Group	47	47
Purchases of goods or services by the Group	(49)	(52)
Amounts owed by joint ventures and associates to the Group	26	29
Amounts owed to joint ventures and associates by the Group	(23)	(9)

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

Amounts owed by joint ventures and associates include £17 million (2017: £16 million) relating to loan funding. These loans bear interest at rates of between 1.50% and 2.00% (2017: between 1.50% and 2.00%). The maximum amount of loan funding outstanding in total from joint ventures and associates during the year was £17 million (2017: £100 million). In the prior year Sky Bet repaid £83 million pursuant to an outstanding loan balance.

The Group took out a number of forward exchange contracts with counterparty banks during the prior 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 2018 was £9 million (2017: £13 million).

During the year, less than US\$1 million (2017: US\$19 million) was received from the joint venture upon maturity of forward exchange contracts, and US\$4 million (2017: US\$37 million) was paid to the joint venture upon maturity of forward exchange contracts.

During the year, £3 million (2017: £26 million) was received from the joint venture upon maturity of forward exchange contracts, and £1 million (2017: £21 million) was paid to the joint venture upon maturity of forward exchange contracts.

During the year, €1 million (2017: €8 million) was received from the joint venture upon maturity of forward exchange contracts and nil (2017: nil) was paid to the joint venture upon maturity of forward exchange contracts.

At 30 June 2018 the Group had minimum expenditure commitments of £1 million (2017: £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 2018, there were 11 (2017: 11) members of key management all of whom were Directors of the Company. Key management compensation is disclosed in note 6b.

29. Events after the reporting period

On 10 July 2018, the Group completed the sale of its 20% stake in Sky Betting & Gaming to The Stars Group Inc. for a total consideration of £635 million, comprising £427 million in cash and 76 million shares in The Stars Group Inc.

30. Group investments

The Group and its subsidiaries are involved in the operation of pay television broadcasting and home communications services, including the provision of broadband and telephone operations. Certain subsidiary companies provide ancillary functions which support these operations. Joint ventures and associates are involved in the transmission of specialist channels and the production of television programming

Unless otherwise indicated, all shareholdings owned directly or indirectly by the Company represent 100% of the issued share capital of the subsidiary and the share capital is comprised of ordinary shares. All entities primarily operate in their country of incorporation and are listed at their registered addresses.

Subsidiaries:

Direct holdings of the Company

Incorporated in the UK

Grant Way, Isleworth, Middlesex TW7 5QD
British Sky Broadcasting Group Limited
Picnic Limited
Sky Finance Europe Limited
Sky Group Finance plc
Sky Guarantee Investments Limited¹
Sky Operational Finance Limited
Sky Television Limited
Sky UK Limited

Sky Retail Stores Limited
Sky SNA Limited
Sky SNI Limited
Sky SNI Operations Limited
Sky Subscribers Services Limited
Sky Telecommunications Limited
Sky Telecommunications Services Limited
Sky Ventures Limited
The Cloud Networks Limited
Tour Racing Limited^{2,11}
True North Productions Limited¹²
Una Tickets Limited
Virtuous Systems Limited

Subsidiaries:

Indirect holdings of the Company

Incorporated in the UK

Grant Way, Isleworth, Middlesex TW7 5QD
365 Media Group Limited
Amstrad Limited
Avanti Media Group Limited⁹
Blast! Films Limited¹⁴
British Sky Broadcasting Limited
Ciel Bleu 6 Limited
Cymru International Limited
Diagonal View Limited
Dolphin TV Limited
Ethnic Media Sales EMS Limited
International Channel Pack Distribution Limited
Kidsprog Limited
Love Productions Limited¹⁰
MEMSTV Limited
Multicultural & Ethnic Media Sales Limited
Newsedge Limited
NOW TV Limited
Parthenon 1 Limited
Parthenon 2 Limited
Parthenon Entertainment Limited
Parthenon Media Group Limited
Rivals Digital Media Limited
S.A.T.V. Publishing Limited
Sky Channel Limited
Sky Comedy Limited
Sky CP Limited
Sky Europe Limited
Sky Global Media Limited
Sky Group Limited
Sky Healthcare Scheme 2 Limited
Sky History Limited
Sky Holdings Limited
Sky Home Communications Limited
Sky In-Home Service Limited
Sky International Limited
Sky International Operations Limited
Sky IP International Limited
Sky IQ Limited
Sky LLU Assets Limited
Sky Mobile Services Limited
Sky New Media Ventures Limited
Sky News Limited
Sky Ocean Ventures (General Partner) Limited
Sky Ocean Ventures Limited Partnership
Sky Ocean Ventures Partner Limited
Sky Publications Limited

36 Cardiff Road, Llandaff, Cardiff CF5 2DR
Avanti Media Limited⁹

10th Floor, The Met Building, 22 Percy Street, London W1T 2BU
Znak & Co Limited¹³

Unit 100 Highgate Studios, 53-79 Highgate Road, London NW5 1TL
Blast! Films – Hunger Limited¹⁴
Blast! Films – One Day Limited¹⁴

Millbank Tower, 21-24 Millbank, London SW1P 4QP
Attheraces Holdings Limited^{3,5}
Attheraces Limited¹⁵
Attheraces (UK) Ltd¹⁵
Go Racing Ltd^{8,15}

Incorporated in Germany

Oderstraße 59, 14513 Teltow, Potsdam
Sky Deutschland Customer Center GmbH

Eckdrift 109, 19061 Schwerin-Krebsforden
Sky Deutschland Service Center GmbH

Medienallee 26, 85774 Unterföhring, Munich
BSkyB GmbH
Premiere WiN Fernsehen GmbH
SCAS Satellite CA Services GmbH
Sky Deutschland GmbH
Sky Deutschland Fernsehen GmbH & Co. KG⁷
Sky Deutschland Verwaltungs GmbH
Sky German Holdings GmbH
Sky Hotel Entertainment GmbH
Sky Media GmbH

Incorporated in Italy

Via Monte Penice, 7 – 20138 Milan
Digital Exchange S.r.l.²
Nuova Società Televisiva Italiana S.r.l.²
Sky Italia S.r.l.²
Sky Italian Holdings S.p.A.
Sky Italia Network Service S.r.l.²
Telepiù S.r.l.²
Vision Distribution SpA¹²

Incorporated in the USA

Corporation Trust Center 1209 Orange Street, Wilmington, New Castle,
Delaware, 19801
BSkyB US Holdings, Inc.⁸
Znak & Co LLC^{2,13}

Notes to the consolidated financial statements continued

30. Group investments (continued)

1675 S. State Street, Suite B, Dover, DE 19901

Big Sky Music, LLC^{2,8,12}

Callisto Media West, LLC^{2,8,12}

Jupiter Entertainment, LLC^{2,8,12}

Jupiter Entertainment Holdings, LLC^{2,8,12}

Jupiter Entertainment North, LLC^{2,8,12}

4800 Old Kingston Pike, Suite 2200, Knoxville, TN 37919

PhotoOps, LLC^{2,8,12}

1925 Century Park East, 22nd Floor, Los Angeles CA 90067-90071

Baking Show, LLC^{2,5,10}

Love American Journeys, LLC^{2,5,10}

Love Baking, LLC^{2,5,10}

Love Productions USA, Inc^{2,5,10}

Love Sewing, LLC^{2,5,10}

USA Love Development, LLC^{2,5,10}

Incorporated in other overseas countries

Austria – Handelskai 92, 1200 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

Rue du Puits-Godet 10, Neuchâtel

Sky Switzerland SA

Stockerhof, Dreikönigstrasse 31A, CH8002 Zürich

Sky International AG

Joint ventures and associates:

Incorporated in the UK

1 Queen Caroline Street, London, W6 9YN

AETN UK

1st Floor Suite, 181b Kensington High Street, London W8 6SH

Chrysalis Vision Limited¹⁶

4 Roger Street, 2nd Floor, London WC1N 2JX

Clearcast Limited⁶

2nd Floor, 27 Mortimer Street, London W1T 3JF

DTV Services Limited⁶

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

GBI Racing Ltd⁹

6th Floor, One London Wall, London EC2Y 5EB

Internet Matters Limited¹³

17-19 Hawley Crescent, Camden, London NW1 8TT

Nickelodeon UK Limited⁷

Paramount UK Partnership^{1,7,9}

3 Park Square East, Leeds, LS1 2NE

Pitch Music Limited⁵

76 Charlotte Street, London W1T 4QS

Popcorn Digital Limited¹⁷

St Albans House, 57-59 Haymarket, London SW1Y 4QX

Odeon and Sky Filmworks Limited⁸

5 Technology Park, Colindeep Lane, Colindale, NW9 6BX

Sugar Films Limited

Manning House 1st Floor, 22 Carlisle Place, London SW1P 1JA

Thinkbox TV Limited⁸

Incorporated in other overseas countries

Channel Islands – 1 Waverley Place, Union Street, St Helier, Jersey JE1 1SG

Cyan Blue Topco Limited⁴

USA – 874 Walker Rd, Suite C, Dover, DE 19904

Talos Films, LLC^{2,18}

UAE – PO Box 77845, Abu Dhabi

Sky News Arabia FZ-LLC

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 a membership, partnership or quota interest, according to the legal form of the Company.

3 This entity has also issued recoupment shares.

4 This entity has also issued contingent value shares.

5 These entities have an accounting reference date of 31 March.

6 This entity has an accounting reference date of 31 May.

7 These entities have an accounting reference date of 30 September.

8 These entities have an accounting reference date of 31 December.

9 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.

10 Sky owns 70.40% of the issued share capital of this entity.

11 Sky owns 85.00% of the issued share capital of this entity.

12 Sky owns 60.00% of the issued share capital of this entity.

13 Sky owns 67.50% of the issued share capital of this entity.

14 Sky owns 70.00% of the issued share capital of this entity.

15 Sky owns 50.41% of the issued share capital of this entity.

16 This entity has an accounting reference date of 28 February.

17 This entity has an accounting reference date of 30 November.

18 This entity has an accounting reference date of 31 October.

19 Sky owns 51.00% 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 2018 by virtue of section 479A of the Companies Act 2006: Kidsprog Limited (02767224), Parthenon Media Group Limited (06944197), Sky Finance Europe Limited (09446689), Sky IP International Limited (07245844), Sky Operational Finance Limited (02906994) and Sky Television Limited (01518707).

31. Sky plc company only financial statements

Company balance sheet

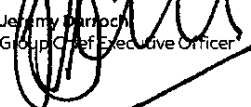
as at 30 June 2018

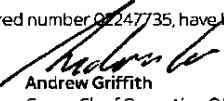
	Notes	2018 £m	2017 £m
Non-current assets			
Investments in subsidiaries	C	8,191	9,531
Other receivables	E	4	5
Derivative financial assets	H	433	599
Deferred tax assets	D	18	9
		8,646	10,144
Current assets			
Other receivables	E	7,272	6,126
Cash and cash equivalents		2	1
Derivative financial assets	H	57	203
		7,331	6,330
Total assets		15,977	16,474
Current liabilities			
Borrowings	F	438	573
Other payables	G	95	108
Derivative financial liabilities	H	1	3
		534	684
Non-current liabilities			
Borrowings	F	7,426	7,874
Derivative financial liabilities	H	189	183
		7,615	8,057
Total liabilities		8,149	8,741
Share capital	J	860	860
Share premium	J	2,704	2,704
Reserves		4,264	4,169
Total equity attributable to equity shareholders		7,828	7,733
Total liabilities and shareholders' equity		15,977	16,474

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

The Company's profit for the year was £616 million (2017: £386 million).

These financial statements of Sky plc, registered number 02247735, have been approved by the Board of Directors on 25 July 2018 and were signed on its behalf by:


Jeremy Burroughs
Group Chief Executive Officer


Andrew Griffith
Group Chief Operating Officer and Chief Financial Officer

Notes to the consolidated financial statements continued

31. Sky plc company only financial statements (continued)

Company cash flow statement for the year ended 30 June 2018

	Notes	2018 £m	2017 £m
Cash flows from operating activities			
Cash generated from operations	K	-	-
Net cash from operating activities		-	-
Cash flows from financing activities			
Proceeds from the exercise of share options		14	15
Loan to subsidiaries		(13)	(14)
Net cash from financing activities		1	1
Net increase in cash and cash equivalents		1	1
Cash and cash equivalents at the beginning of the year		1	-
Cash and cash equivalents at the end of the year		2	1

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

Company statement of changes in equity for the year ended 30 June 2018

	Share capital £m	Share premium £m	Special reserve £m	Capital redemption reserve £m	Capital reserve £m	ESOP reserve £m	Hedging reserve £m	Retained earnings £m	Shareholders' equity £m	Total equity £m
At 30 June 2016	860	2,704	14	190	844	(125)	(30)	3,144	7,601	
Profit for the year	-	-	-	-	-	-	-	386	386	
Recognition and transfer of cash flow hedges	-	-	-	-	-	-	(48)	-	(48)	
Tax on items taken directly to other comprehensive income	-	-	-	-	-	-	8	-	8	
Total comprehensive (loss) income for the year	-	-	-	-	-	-	(40)	386	346	
Share-based payment	-	-	-	-	-	47	-	97	144	
Dividends	-	-	-	-	-	-	-	(358)	(358)	
At 30 June 2017	860	2,704	14	190	844	(78)	(70)	3,269	7,733	
Profit for the year	-	-	-	-	-	-	-	616	616	
Recognition and transfer of cash flow hedges	-	-	-	-	-	-	(22)	-	(22)	
Tax on items taken directly to other comprehensive income	-	-	-	-	-	-	4	-	4	
Total comprehensive (loss) income for the year	-	-	-	-	-	-	(18)	616	598	
Share-based payment	-	-	-	-	-	69	-	(176)	(107)	
Dividends	-	-	-	-	-	-	-	(396)	(396)	
At 30 June 2018	860	2,704	14	190	844	(9)	(88)	3,313	7,828	

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

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

A. Accounting policies

Sky plc (the 'Company') is a public limited company incorporated in the United Kingdom and registered in England and Wales.

i) Basis of preparation

The Company financial statements have been prepared in accordance with IFRS, consistent with the accounting policies set out in note 1 of the Group's consolidated financial statements. In accordance with the exemption allowed by Section 408(3) of the Companies Act 2006, the Company has not presented its own income statement or statement of comprehensive income.

Under IAS 1, other than those described in the accounting policies, we are not aware of any critical accounting judgements or key sources of estimation uncertainty.

ii) Investment in subsidiaries

An investment in a subsidiary is recognised at cost less any provision for impairment. As permitted by section 133 of the Companies Act 2006, where the relief afforded under section 131 of the Companies Act 2006 applies, cost is the aggregate of the nominal value of the relevant number of the Company's shares and the fair value of any other consideration given to acquire the share capital of the subsidiary undertakings.

B. Employees

Employee benefits

The Company had no employees (2017: 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 46 to 60.

C. Investments in subsidiaries

	£m
Cost	
At 1 July 2016	10,528
Additions	8
At 30 June 2017	10,536
Disposals	(1,340)
At 30 June 2018	9,196
Provision	
At 1 July 2016, 30 June 2017 and 30 June 2018	(1,005)
Carrying amounts	
At 1 July 2016	9,523
At 30 June 2017	9,531
At 30 June 2018	8,191

See note 28 for a list of the Company's investments

D. Deferred tax

Recognised deferred tax assets

	Financial instruments temporary differences £m
At 1 July 2016	-
Credit to income	1
Credit to other comprehensive income	8
At 30 June 2017	9
Credit to income	5
Credit to other comprehensive income	4
At 30 June 2018	18

At 30 June 2018 a deferred tax asset of £199 million (2017: £208 million) has not been recognised in respect of gross capital losses of £1,171 million (2017: £1,223 million) related to the Group's holding in KirchPayTV, on the basis that utilisation of these temporary differences is not probable. At 30 June 2018, the Company has also not recognised a deferred tax asset of £1 million (2017: £1 million) relating to gross capital losses and provisions of £5 million (2017: £5 million) in respect of football club investments, on the basis that it is not probable that they will be utilised.

E. Other receivables

	2018 £m	2017 £m
Amounts receivable from subsidiaries	7,267	6,121
Prepayments and other receivables	5	5
Current other receivables	7,272	6,126
Non-current prepayment	4	5
Total other receivables	7,276	6,131

On 17 November 2015, the Company made a loan of £356 million to Sky Operational Finance Limited. This loan bears interest at 3.721% and is repayable on demand.

On 1 April 2015, the Company made a loan of €600 million to Sky Operational Finance Limited. This loan bears interest at 3 month EURIBOR plus 0.75% and is repayable on demand.

On 27 November 2014, the Company made a loan of €400 million to Sky Operational Finance Limited. This loan bears interest at 2.750% and is repayable on demand.

On 24 November 2014, the Company made loans of €850 million and €126 million to Sky Operational Finance Limited. These loans bear interest at a rate of 1.875% and 2.940% respectively, and are repayable on demand.

On 16 September 2014, the Company made loans of €969 million and €582 million to Sky Operational Finance Limited. These loans bear interest at 2.187% and EURIBOR plus 0.656% respectively, and are repayable on demand.

On 15 September 2014, the Company made loans of €1,500 million and €1,000 million to Sky Operational Finance Limited. These loans bear interest at 1.500% and 2.500% respectively, and are repayable on demand.

Notes to the consolidated financial statements continued

31. Sky plc company only financial statements (continued)

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

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

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

F. Borrowings

	2018 £m	2017 £m
Current borrowings		
US\$582.8 million of 9.500% Guaranteed Notes repayable in November 2018	438	-
US\$750 million of 6.100% Guaranteed Notes repayable in February 2018	-	573
	438	573
Non-current borrowings		
US\$582.8 million of 9.500% Guaranteed Notes repayable in November 2018	-	436
US\$750 million of 2.625% Guaranteed Notes repayable in September 2019	561	575
€600 million of Guaranteed Floating Rate Notes repayable in April 2020	530	526
£450 million of 2.875% Guaranteed Notes repayable in November 2020	453	458
€1,500 million of 1.500% Guaranteed Notes repayable in September 2021	1,322	1,312
US\$800 million of 3.125% Guaranteed Notes repayable in November 2022	603	613
€850 million of 1.875% Guaranteed Notes repayable in November 2023	749	744
US\$1,250 million of 3.750% Guaranteed Notes repayable in September 2024	942	958
€500 million of 2.250% Guaranteed Notes repayable in November 2025	440	437
€1,000 million of 2.500% Guaranteed Notes repayable in September 2026	880	873
£300 million of 6.000% Guaranteed Notes repayable in May 2027	297	297
£300 million of 4.000% Guaranteed Notes repayable in November 2029	298	297
€400 million of 2.750% Guaranteed Notes repayable in November 2029	351	348
	7,426	7,874

At 30 June 2018 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\$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%	-
	2,198	1,619	579		

	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%	-
	6,026	4,845	1,181		

At 30 June 2017 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%	-
	2,585	1,909	676		

	Hedged Value £m	Interest Rate Hedging		Hedged Interest Rates	
		Fixed £m	Floating £m	Fixed	Floating
US\$750 million of 2.625% Guaranteed Notes repayable in September 2019	581	-	581	-	3m EURIBOR +0.656%
€600 million of 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 6.000% Guaranteed Notes repayable in May 2027	126	126	-	2.943%	-
£400 million of 2.750% Guaranteed Notes repayable in November 2029	400	400	-	2.750%	-
	6,026	4,845	1,181		

G. Other payables

	2018 £m	2017 £m
Other payables		
Accruals	95	108
	95	108

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

H. Derivatives and other financial instruments

Fair values

Set out below is a comparison of the carrying values and the estimated fair values of the Company's financial assets and financial liabilities at 30 June 2018 and 30 June 2017:

	2018 Carrying value £m	2018 Fair value £m	2017 Carrying value £m	2017 Fair value £m
Financial assets and liabilities held or issued to finance the Company's operations				
Quoted bond debt	(7,864)	(8,255)	(8,447)	(8,960)
Derivative financial instruments	300	300	616	616
Other payables and receivables	7,172	7,172	6,013	6,013

The fair values of financial assets and financial liabilities are determined as detailed in note 21 and all items held at fair value are classified as Level 2 in the fair value hierarchy, with the exception of the Company's quoted bond debt which is determined with reference to quoted market prices based on Level 1 of the fair value hierarchy.

Notes to the consolidated financial statements continued

31. Sky plc company only financial statements (continued)

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

	2018				2017			
	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	14	450	-	-	25	594	-	-
Cross-currency swaps	102	466	-	-	120	466	-	-
Cash flow hedges								
Cross-currency swaps	275	1,634	-	-	469	1,924	-	-
Derivatives not in a formal hedge relationship								
Interest rate swaps	3	441	(1)	260	19	310	(7)	499
Cross-currency swaps	96	533	(189)	1,483	169	629	(179)	1,483
Total	490	3,524	(190)	1,743	802	3,923	(186)	1,982

Note 21 provides further details of the Group's derivative and other financial instruments.

The maturity of the derivative financial instruments is shown below:

	2018		2017	
	Asset £m	Liability £m	Asset £m	Liability £m
In one year or less	57	(1)	203	(3)
Between one and two years	102	(49)	79	(4)
Between two and five years	78	-	140	(47)
In more than five years	253	(140)	380	(132)
Total	490	(190)	802	(186)

I. Financial risk management

Interest rate and foreign exchange risk management

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

Foreign exchange risk

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

A 25% strengthening in pounds sterling against the US dollar would have nil impact on profit (2017: adverse impact of £5 million), relating to non-cash movements in the valuation of derivatives. The same strengthening would have an adverse impact on other equity of £9 million (2017: adverse impact of £40 million).

A 25% weakening in pounds sterling against the US dollar would have nil impact on profit (2017: beneficial impact of £9 million), relating to non-cash movements in the valuation of derivatives. The same weakening would have a beneficial impact on other equity of £15 million (2017: beneficial impact of £67 million).

A 25% strengthening in pounds sterling against the euro would have a beneficial impact on profit of £25 million (2017: beneficial impact of £27 million), relating to non-cash movements in the valuation of derivatives. The same strengthening would have an adverse impact on other equity of £11 million (2017: adverse impact of £12 million).

A 25% weakening in pounds sterling against the euro would have an adverse impact on profit of £41 million (2017: adverse impact of £45 million), relating to non-cash movements in the valuation of derivatives. The same weakening would have a beneficial impact on other equity of £18 million (2017: beneficial impact of £19 million).

Interest rate risk

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

For each one hundred basis point rise or fall in interest rates at 30 June 2018, and if all other variables were held constant, the Company's profit for the year ended 30 June 2018 would decrease or increase by £5 million (2017: decrease or increase by £6 million) and other equity reserves would decrease or increase by £15 million (2017: decrease or increase by £22 million).

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

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

The changes in valuations are estimates of the impact of changes in market variables and are not a prediction of future events or anticipated gains or losses.

1. Financial risk management (continued)

Liquidity risk

See note 22 for the Company's policy on liquidity management.

The following table analyses the Company's non-derivative financial liabilities, net settled interest rate swaps and gross settled currency swaps into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date

The amounts disclosed in the table are the contractual undiscounted cash flows and may therefore not reconcile to the amounts disclosed on the balance sheet for borrowings, derivative financial instruments and other payables.

	Less than 12 months £m	Between one and two years £m	Between two and five years £m	More than five years £m
At 30 June 2018				
Non-derivative financial liabilities				
Bonds – USD	531	630	760	1,000
Bonds – GBP	43	43	553	756
Bonds – EUR	78	609	1,534	2,632
Other payables	95	-	-	-
Net settled derivatives				
Financial assets	(7)	(5)	(9)	-
Gross settled derivatives				
Outflow	508	1,080	789	2,810
Inflow	(594)	(1,158)	(941)	(3,004)
	Less than 12 months £m	Between one and two years £m	Between two and five years £m	More than five years £m
At 30 June 2017				
Non-derivative financial liabilities				
Bonds – USD	726	541	751	1,679
Bonds – GBP	43	43	566	786
Bonds – EUR	78	78	2,073	2,671
Other payables	108	-	-	-
Net settled derivatives				
Financial assets	(21)	(11)	(16)	-
Gross settled derivatives				
Outflow	537	506	1,273	3,406
Inflow	(774)	(600)	(1,402)	(3,760)

At 30 June 2018, the Company had an undrawn £1 billion RCF with a maturity date of 30 November 2021. See note 20 for further information.

Notes to the consolidated financial statements continued

31. Sky plc company only financial statements (continued)

J. Notes to the Company statement of changes in equity

For details of share capital, share premium, the special reserve, the capital redemption reserve, the ESOP reserve and the hedging reserve, see notes 23 and 24.

For details of dividends, see note 9.

Capital reserve

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

K. Reconciliation of profit before tax to cash generated from operations

	2018 £m	2017 £m
Profit before tax	624	414
Dividend income	(577)	(267)
Net finance costs	140	15
Increase in other receivables	(187)	(162)
Cash generated from operations	-	-

L. Contingent liabilities and guarantees

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

The Company has provided parent company guarantees in respect of the various contracts entered into with the Premier League by Sky UK Limited and Sky Italia Srl covering the 2017/18 to 2021/22 football seasons. In each case the guarantee covers all payment obligations now or in the future due, owing or incurred by Sky UK Limited and Sky Italia Srl under the contracts and all liabilities now or in the future arising or incurred under the indemnity given to the Premier League by Sky UK Limited and Sky Italia Srl under the contracts.

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

The Company has provided back-to-back guarantees in favour of 21st Century Fox, Inc. in relation to UEFA Europa League and other programming obligations of Sky Italia Srl.

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

The Company has provided a parent company guarantee to Apple Distribution International in respect of all the payment obligations of Sky UK Limited under an iPhone distribution agreement.

The Company has guarantees in place relating to the Group's borrowings, see note 20, and in relation to audit exemptions, see note 30.

M. Transactions with related parties and major shareholders

	2018 £m	2017 £m
Supply of services to subsidiaries	241	222
Interest received from funding to subsidiaries	140	177
Amounts owed by subsidiaries	7,267	6,121

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 £498 million and £104 million (2017: £112 million and £103 million) on behalf of the Company during the year. Interest is earned on certain loans to subsidiaries.

The Company recognised £241 million (2017: £222 million) for licensing the Sky brand name to subsidiaries. The Company recognised dividends during the year from subsidiaries totalling £577 million (2017: £267 million).

The Group's related-party transactions are disclosed in note 28.

Group financial record

Unaudited supplemental information

Consolidated results

Below is selected financial information for the Group under IFRS as at and for each of the five years ended 30 June.

	Year ended 30 June 2018 £m	Year ended 30 June 2017 £m	Year ended 30 June 2016 £m	Year ended 30 June 2015 £m	Year ended 30 June 2014 £m
Consolidated income statement					
Continuing operations					
Revenue ¹	13,585	12,916	11,965	9,989	7,450
Operating expense ²	(12,551)	(11,952)	(10,988)	(9,017)	(6,346)
Operating profit	1,034	964	977	972	1,104
Share of results of joint ventures and associates	56	21	2	28	35
Investment income	11	22	17	8	26
Finance costs	(286)	(204)	(244)	(283)	(140)
Profit on disposal of available-for-sale investment	49	-	-	492	-
Profit on disposal of associate	-	-	-	299	-
Profit before tax	864	803	752	1,516	1,025
Taxation	(49)	(112)	(89)	(184)	(205)
Profit for the year from continuing operations	815	691	663	1,332	820
Discontinued operations					
Profit for the year from discontinued operations	-	-	-	620	45
Profit for the year	815	691	663	1,952	865
Profit (loss) for the year attributable to					
Equity shareholders of the parent company	815	695	666	1,957	865
Non-controlling interests	-	(4)	(3)	(5)	-
Net (loss) profit recognised directly in equity	(163)	(109)	378	(625)	73
Total comprehensive income for the year	652	582	1,041	1,327	938
Earnings per share from profit for the year (in pence)					
Basic	47.5p	40.6p	39.0p	115.8p	55.4p
Diluted	47.2p	40.0p	38.7p	114.4p	54.9p
Dividends per share (in pence)	23.1p	-	33.5p	32.8p	32.0p
Consolidated balance sheet					
	30 June 2018 £m	30 June 2017 £m	30 June 2016 £m	30 June 2015 £m	30 June 2014 £m
Non-current assets	13,264	13,104	12,708	10,799	3,876
Current assets	4,738	5,334	4,702	4,559	2,573
Total assets	18,002	18,438	17,410	15,358	6,449
Current liabilities	(5,321)	(5,550)	(4,326)	(4,204)	(2,519)
Non-current liabilities	(8,661)	(9,041)	(9,643)	(7,930)	(2,858)
Net assets	4,020	3,847	3,441	3,224	1,072
Number of shares in issue (in millions)	1,719	1,719	1,719	1,719	1,563

Group financial record – Unaudited supplemental information continued

	30 June 2018 ('000)	30 June 2017 ('000)	30 June 2016 ('000)	30 June 2015 ('000)	30 June 2014 ('000)
Statistics					
Products					
UK and Ireland	44,689	41,958	40,373	38,036	34,775
Germany and Austria	8,887	8,774	8,042	7,133	-
Italy	9,241	8,978	8,640	8,614	-
Total paid-for subscription products	62,817	59,710	57,055	53,783	34,775
Customers					
UK and Ireland	12,996	12,726	12,446	12,001	11,495
Germany and Austria	5,191	4,991	4,626	4,280	-
Italy	4,823	4,783	4,742	4,725	-
Retail customers	23,010	22,500	21,814	21,006	11,495
UK and Ireland	3,345	3,492	3,923	4,028	4,041
Germany and Austria	160	129	144	146	-
Italy	-	-	-	-	-
Wholesale customers³	3,505	3,621	4,067	4,174	4,041
Total customers	26,515	26,121	25,881	25,180	15,536
Churn					
UK and Ireland	10.3%	11.5%	11.2%	9.8%	10.9%
Germany and Austria	15.0%	12.6%	9.9%	8.6%	-
Italy	10.1%	9.1%	11.1%	9.6%	-

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

2 Included within operating expense for the year ended 30 June 2018 are costs of £194 million relating to corporate restructuring and efficiency programmes, costs of £66 million relating to the integration of Sky Deutschland and Sky Italia in the enlarged Group, costs of £23 million relating to advisory fees and share-based payments incurred as a result of offers for the Company, income of £21 million relating to regulatory related receipts and proceeds of settlements and costs of £278 million relating to the amortisation of acquired intangible assets and related acquisition costs.

Included within operating expense for the year ended 30 June 2017 are costs of £140 million relating to corporate restructuring and efficiency programmes, costs of £50 million relating to the integration of Sky Deutschland and Sky Italia in the enlarged Group, costs of £56 million relating to advisory fees and share-based payments incurred as a result of the 21st Century Fox Offer and costs of £258 million relating to the amortisation of acquired intangibles.

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

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

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

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

Factors which materially affect the comparability of the selected financial data

Basis of preparation

Fiscal 2016 includes 53 weeks of trading compared with 52 weeks in all other years.

Discontinued operations

During fiscal 2015, the Group sold a controlling stake in its online betting and gaming business

Available-for-sale investment

During fiscal 2018, the Group disposed of its investment in Roku Inc. During fiscal 2015, the Group disposed of its remaining investment in ITV.

Business combinations and profit on disposal of associate

During fiscal 2015, the Group completed the acquisitions of Sky Deutschland and Sky Italia. The results of these acquisitions were consolidated from the date on which control passed to the Group (12 November 2014). As part of the consideration for the purchase of Sky Italia the Group disposed of its shareholding in the National Geographic channel

Exchange rates

A significant portion of the Group's liabilities and expenses associated with the cost of programming acquired from US film licensors together with set-top box costs are denominated in US dollars. A significant portion of the Group's revenues and expenses associated with its operations in Germany and Austria and Italy are denominated in euros. For a discussion of the impact of exchange rate movements on the Group's financial condition and results of operations, see note 22 to the consolidated financial statements.

Non-GAAP measures

Unaudited supplemental information

Consolidated income statement – reconciliation of statutory and adjusted numbers

	Notes	2018	
		Statutory £m	Adjusted £m
Revenue			
Direct-to-consumer		11,830	11,830
Content		838	838
Advertising		917	917
		13,585	13,585
Operating expense			
Programming	A	(6,488)	(6,431)
Direct network costs	B	(1,139)	(1,148)
Sales, general and administration	C	(4,924)	(4,432)
		(12,551)	(12,011)
EBITDA		2,108	2,349
Operating profit		1,034	1,574
Share of results of joint ventures and associates	D	56	34
Investment income	E	11	8
Finance costs	F	(286)	(234)
Profit on disposal of available-for-sale investment	G	49	-
Profit before tax		864	1,382
Taxation	H	(49)	(214)
Profit for the year		815	1,168
Profit attributable to non-controlling interests	I	-	(13)
Profit for the year attributable to equity shareholders of the parent company		815	1,155
Earnings per share (basic)		475p	673p

Notes: explanation of adjusting items for the year ended 30 June 2018

- A Costs of £24 million relating to corporate restructuring and efficiency programmes, costs of £2 million relating to the integration of Sky Deutschland and Sky Italia in the enlarged Group, and costs of £31 million relating to the amortisation of acquired intangible assets and related acquisition costs.
- B Income of £9 million relating to regulatory-related receipts and proceeds of settlements
- C Costs of £170 million relating to corporate restructuring and efficiency programmes (including £14 million of depreciation and amortisation), costs of £64 million relating to the integration of Sky Deutschland and Sky Italia in the enlarged Group (including £41 million of depreciation and amortisation), costs of £23 million relating to advisory fees and share-based payments incurred as a result of offers for the Company, income of £12 million relating to regulatory related receipts and proceeds of settlements and costs of £247 million relating to the amortisation of acquired intangible assets and related acquisition costs.
- D Income of £33 million relating to distribution received from associate and costs of £11 million relating to the amortisation of acquired intangible assets and related acquisition costs.
- E Interest income of £3 million on credit received relating to regulatory related receipts and proceeds of settlements
- F Remeasurement of all derivative financial instruments not qualifying for hedge accounting.
- G Profit on disposal of available-for-sale investment of £49 million
- H Tax adjusting items and the tax effect of the above items
- I Costs of £13 million relating to the amortisation of acquired intangible assets and related acquisition costs.

Corporate restructuring and efficiency programmes

Corporate restructuring and efficiency programmes include costs associated with specific programmes that the Group has established in order to achieve reductions in ongoing operating expense. Costs of these programmes include redundancy and relocation costs, consultancy costs, contract exit costs and the impairment or accelerated depreciation of assets that the Group no longer expects to use for their original estimated useful economic life.

Integration of Sky Deutschland and Sky Italia in the enlarged Group

Integration costs associated with the integration of Sky Deutschland and Sky Italia and are part of the Group's plan to target £400 million of run rate synergies by the end of 2020. The costs of implementing these plans include consultancy costs, contract exit costs and the impairment or accelerated depreciation of assets that the Group no longer expects to use for their original estimated useful economic life.

Regulatory-related receipts and proceeds of settlements

Regulatory-related receipts and proceeds of settlements includes income received as a result of regulatory determinations and the settlement of historical claims

Offers for the Company

This relates to costs incurred as a result of the 21st Century Fox offer and the Comcast offer. These costs include legal and advisory fees and the impact on share-based payment expense as a result of the offers.

Non-GAAP measures – Unaudited supplemental information continued

Consolidated income statement – reconciliation of statutory and adjusted numbers (continued)

Amortisation of acquired intangible assets and related acquisition costs

Amortisation of acquired intangible assets relates to the cost of amortising intangible assets recognised in a business combination in accordance with accounting rules. These principally relate to customer contracts and related customer relationships relating to the acquired customer bases in Germany and Austria and Italy. Certain acquisitions made by the Group include earn-out payments or put and call options, to allow part of the consideration for the business to be based on future performance. Where these are required to be treated as an expense under accounting rules, they are excluded from adjusted profit with effect from the current year, as they are considered to be capital in nature and therefore do not reflect the underlying performance of the Group.

Distribution received from associate

The Group received a cash distribution of £113 million from its associate Sky Bet following Sky Bet's re-capitalisation during the period.

Disposal of investment

This relates to the profit arising on the disposal of an available-for-sale investment.

Remeasurement of derivative financial instruments

Remeasurement of derivative financial instruments relates to the non-cash accounting charge arising from the remeasurement of all derivative financial instruments not qualifying for hedge accounting and hedge ineffectiveness.

	Notes	2017		
		Statutory £m	Adjusting Items £m	Adjusted £m
Revenue				
Direct-to-consumer		11,312	-	11,312
Content		778	-	778
Advertising		826	-	826
		12,916	-	12,916
Operating expense				
Programming	A	(6,200)	21	(6,179)
Direct network costs		(964)	-	(964)
Sales, general and administration	B	(4,788)	483	(4,305)
		(11,952)	504	(11,448)
EBITDA		1,936	203	2,139
Operating profit		964	504	1,468
Share of results of joint ventures and associates	C	21	5	26
Investment income	D	22	(8)	14
Finance costs	E	(204)	(41)	(245)
Profit before tax		803	460	1,263
Taxation	F	(112)	(103)	(215)
Profit for the year		691	357	1,048
Loss attributable to non-controlling interests	G	4	(2)	2
Profit attributable to equity shareholders of the parent company		695	355	1,050
Earnings per share (basic)		40.6p	20.8p	61.4p

Notes: explanation of adjusting items for the year ended 30 June 2017

- A Costs of £20 million relating to corporate restructuring and efficiency programmes and costs of £1 million relating to the integration of Sky Deutschland and Sky Italia in the enlarged Group
- B Costs of £120 million relating to corporate restructuring and efficiency programmes (including depreciation and amortisation of £13 million), costs of £49 million relating to the integration of Sky Deutschland and Sky Italia in the enlarged Group (including depreciation and amortisation of £30 million), costs of £56 million relating to advisory fees and share-based payments incurred as a result of the offers for the Company, and amortisation of acquired intangible assets and related acquisition costs of £258 million
- C Amortisation of acquired intangible assets and related acquisition costs of £13 million and profit on disposal of joint venture of £8 million.
- D Interest income of £8 million on credit received relating to regulatory-related receipts and proceeds of settlements
- E Credit of £41 million relating to the remeasurement of all derivative financial instruments not qualifying for hedge accounting and hedge ineffectiveness.
- F Tax adjusting items and the tax effect of the above items
- G Costs relating to the amortisation of acquired intangible assets and related acquisition costs of £2 million

Reconciliation of cash generated from operations to adjusted free cash flow for the year ended 30 June 2018

	Note	2018 £m	2017 £m
Cash generated from operations	25	1,910	2,254
Interest received		7	15
Taxation paid		(151)	(163)
Dividends received from joint ventures and associates		131	20
Funding to joint ventures and associates		(8)	(9)
Loan to joint venture		-	(14)
Purchase of property, plant and equipment		(662)	(628)
Purchase of intangible assets		(523)	(546)
Interest paid		(248)	(238)
Free cash flow		456	691
Cash paid relating to corporate restructuring and efficiency programmes		89	114
Cash paid relating to the integration of Sky Deutschland and Sky Italia in the enlarged Group		20	15
Cash paid relating to acquisition related costs		7	-
Cash paid relating to advisory fees incurred as a result of offers for the Company		4	9
Cash received relating to regulatory-related receipts and proceeds of settlements		(24)	-
Adjusted free cash flow		552	829

Where appropriate amounts above are shown net of applicable corporation tax.

The financial performance of the Group is presented using a variety of alternative performance measures. These measures are not defined by IFRS and therefore may not be directly comparable with similarly titled alternative performance measures used elsewhere. These measures should be considered in addition to, and are not intended to be a substitute for, IFRS measures.

Adjusted results

In order to provide a measure of underlying performance, management has chosen to present adjusted results for the year which exclude items that may distort comparability. Such items arise from events or transactions that fall within the ordinary activities of the Group but which management believes should be separately identified to help explain underlying performance. The adjusted results are also those used by management to monitor performance and run the business. A reconciliation of adjusted results to the closest equivalent statutory measure is provided in the tables above for the current and prior years.

Like-for-like

Like-for-like content revenue and programming costs exclude the one-off sale of the Rio Olympic rights in 2016/17 in Italy.

Constant currency

Some of the Group's IFRS and adjusted measures are translated at constant currency exchange rates. Constant currency exchange rates are the average actual exchange rates of the current financial year and are used to eliminate the effects of exchange rate fluctuations in assessing performance. Actual exchange rates are the average actual periodic rates for that financial year. The constant currency exchange rate used for the current year is €1.13:£1 (2017: €1.16:£1). A reconciliation of the adjusted measures at constant currency to the adjusted measures at actual exchange rates is provided below.

£m	12 months to 30 Jun 18	12 months to 30 Jun 17 Like-for-like	Growth Like-for-like	Foreign exchange impact	12 months to 30 Jun 17 Actual exchange rates
Adjusted results					
Revenue	13,585	12,997	+5%	133	12,864
UK and Ireland	8,931	8,600	+4%	-	8,600
Germany and Austria	2,023	1,916	+6%	58	1,858
Italy	2,631	2,481	+6%	75	2,406
EBITDA	2,349	2,151	+9%	12	2,139
UK and Ireland	1,888	1,739	+9%	-	1,739
Germany and Austria	119	147	-19%	4	143
Italy	342	265	+29%	8	257
Operating profit	1,574	1,473	+7%	5	1,468
UK and Ireland	1,389	1,288	+8%	-	1,288
Germany and Austria	(4)	42	-110%	1	41
Italy	189	143	+32%	4	139

Non-GAAP measures – Unaudited supplemental information continued

Established and investment businesses

Established businesses refers to those businesses that have been operating for many years. This includes the Group's entertainment and fixed line communications businesses in the UK & Ireland, Italy and Germany & Austria. Investment businesses refers to new businesses from the first year of launch through to their third fiscal year. Years prior to the year of launch are considered to be R&D and are absorbed within the results of Established businesses. Sky Mobile and Sky Spain are included in Investment Businesses. The results of Established Businesses and Investment Businesses are presented on an adjusted basis and provide information on the performance of the Group's underlying businesses and the investment being made in future growth

Summary of alternative performance measures

APM	Equivalent IFRS measure	Adjustments to reconcile to IFRS measure	Note/page reference for APM to IFRS reconciliation	Definition and purpose
Like-for-like revenue	Revenue	Inclusion of revenue relating to sale of Rio Olympics rights in Italy in 2016/17	Not applicable	Excludes the impact of the sale of the Rio Olympics rights in 2016/17. Exclusion of this one-off item provides an indication of the underlying growth in revenue.
Adjusted operating expense Includes <ul style="list-style-type: none"> • Programming expense • Direct network costs • Sales, general and administration expense 	Operating expense Includes: <ul style="list-style-type: none"> • Programming expense • Direct network costs • Sales, general and administration expense 	Inclusion of adjusting items	Pages 135-136	Operating expense excluding the impact of adjusting items. This excludes items which may distort comparability in order to provide a measure of underlying performance.
Adjusted operating profit	Operating profit	Inclusion of adjusting items	Pages 135-136	Operating profit excluding the impact of adjusting items. This excludes items which may distort comparability in order to provide a measure of underlying performance.
Established Business EBITDA	No direct equivalent	Not applicable	Not applicable	Operating profit excluding the impact of adjusting items, depreciation and amortisation of those businesses that have been operating for many years. This provides information on the performance of the Group's underlying businesses
Investment Business EBITDA	No direct equivalent	Not applicable	Not applicable	Operating profit excluding the impact of adjusting items, depreciation and amortisation of new businesses from the first year of launch through to their third fiscal year. This provides information on the investment being made in future growth.
Adjusted EBITDA	Operating profit	Inclusion of adjusting items and depreciation and amortisation expense	Pages 135-136	Operating profit excluding the impact of adjusting items and depreciation and amortisation expense. EBITDA is a measure of operating performance which approximates the underlying operating cash flow by eliminating non-cash items.
Adjusted earnings per share	Basic earnings per share	Inclusion of adjusting items	Pages 135-136	Profit after tax excluding the impact of adjusting items attributable to equity shareholders of the parent company divided by the weighted average number of ordinary shares in issue during the financial period. This excludes items which may distort comparability in order to provide a measure of underlying performance.

APM	Equivalent IFRS measure	Adjustments to reconcile to IFRS measure	Note/page reference for APM to IFRS reconciliation	Definition and purpose
Effective tax rate	Statutory tax rate	Inclusion of adjusting items and their tax impact	Not applicable	Taxation charge for the period excluding the impact of adjusting items divided by profit before tax excluding the impact of adjusting items. This provides an indication of the underlying tax rate across the Group.
Net debt	Borrowings less cash and cash equivalents and short-term deposits	Not applicable	Page 108	Net debt comprises current and non-current borrowings and borrowings-related derivative financial instruments, offset by cash and cash equivalents and short-term deposits. It is a measure of the Group's balance sheet position and is used by credit rating agencies.
Adjusted free cash flow	Net cash from operating activities	Inclusion of the cash flow impact of adjusting items. Exclusion of capital expenditure, interest paid and cash flows relating to joint ventures and associates	Page 137	Free cash flow includes net cash from operating activities excluding the cash flow impact of adjusting items. It also includes capital expenditure, interest paid and cash flows relating to joint ventures and associates. This measure provides information on the Group's cash generation.
Net debt to EBITDA ratio	No direct equivalent	Not applicable	Not applicable	The net debt to EBITDA ratio is calculated as net debt divided by adjusted EBITDA. It is a measure of the Group's leverage and is used in the Group's banking facility covenant.
Constant currency	No direct equivalent	Not applicable	Page 137	Some of the Group's comparative financial measures are translated at constant currency rates of exchange using the average exchange rates of the current financial year. This is to eliminate the effects of exchange rate fluctuations in assessing performance.

Shareholder information

Managing your shares and shareholder communications

The Company's shareholder register is maintained by its Registrar, Equiniti. Information on how to manage your shareholdings can be found at help.shareview.co.uk

Shareholders can contact Equiniti on the details below in relation to all administrative enquiries relating to their shares, such as a change of personal details, the loss of a share certificate, out-of-date dividend cheques, change of dividend payment methods and how to apply for the Dividend Reinvestment Plan.

Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

Telephone: 0371 384 2091*

Telephone number from outside the UK: +44 121 415 7567

* Lines are open Monday to Friday 8.30am to 5.30pm; excluding UK Bank Holidays

Shareholders who have not yet elected to receive shareholder documentation in electronic form can sign up by registering at www.shareview.co.uk. Should Shareholders who have elected for electronic communications require a paper copy of any of the Company's shareholder documentation, or wish to change their instructions, they should contact Equiniti.

Accessibility

If you would like advice regarding accessibility of this document, please contact the Accessible Customer Service team on +44 (0) 344 241 0333.

American Depositary Receipts ('ADR')

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

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

BNY Mellon Shareowner Services
PO Box 505000

Louisville, KY 40233-5000 USA

US residents: (888) 269-2377

If resident outside the US: +1 201 680 6825

email: shrelations@cpushareownerservices.com

website: www.mybnymdr.com

Annual General Meeting

The venue and timing of the Company's AGM will be detailed in the notice convening the AGM which will be available for download from the Company's corporate website at www.skygroup.sky/corporate

Auditor

Deloitte LLP
1 New Street Square
London
EC4A 3BZ

Company's registered office

Grant Way
Isleworth
Middlesex
TW7 5QD
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Overseas: +44 333 100 0333

Company registration number

Registered in England and Wales under number 2247735

Company website

Shareholders are encouraged to visit the Sky website sky.com which has a wealth of information about the Company. There is a section designed specifically for investors at www.skygroup.sky/corporate where investor and media information can be accessed. This year's Annual Report, together with prior year documents, can be viewed there along with information on dividends, share price and avoiding shareholder fraud.

Dividends

Dividends can be paid directly into your bank account. This is the easiest way for shareholders to receive dividend payments and avoids the risk of lost or out-of-date cheques. A dividend mandate form is available from Equiniti or at www.shareview.co.uk

If you are a UK taxpayer, please note that from 6 April 2016 the Dividend Tax Credit was replaced by a tax-free Dividend Allowance of £5,000. For the tax year 6 April 2018 to 5 April 2019, the Dividend Allowance is £2,000. Any dividends received above this amount will be subject to taxation. Dividends paid on shares held within pensions and Individual Savings Accounts ('ISAs') will continue to be tax-free. Further information can be found at www.gov.uk/tax-on-dividends

An Annual Dividend Confirmation is available for shareholders who have chosen to receive dividends directly into their bank account. The single Annual Dividend Confirmation is usually mailed by the end of November each year, to coincide with the final dividend payment (if applicable)

Equiniti are also able to pay dividends to shareholder bank accounts in over 30 currencies worldwide through the Overseas Payment Service. An administrative fee will be deducted from each dividend payment. Further details can be obtained from Equiniti or online at www.shareview.co.uk

Dividend Reinvestment Plan

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

Financial calendar

Results for the financial year ending 30 June 2018 will be published in:

November 2018*

January 2019*

April 2019*

July 2019*

* Provisional dates

ShareGift

Shareholders who only have a small number of shares whose value makes it uneconomic to sell them may wish to consider donating them to charity through ShareGift, the independent charity share donation scheme (registered charity no. 1052686). Further information may be obtained from ShareGift on 020 7930 3737 or at sharegift.org.

Shareholder fraud

Fraud is on the increase and many shareholders are targeted every year. If you have any reason to believe that you may have been the target of a fraud, or attempted fraud in relation to your shareholding, please contact Equiniti immediately.

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