SKY UK LIMITED

Annual report and financial statements
For the year ended 30 June 2016

Registered number: 02906991

Directors and Officers

For the year ended 30 June 2016

Directors

Sky UK Limited's ("the Company") present Directors and those who served during the year are as follows:

A J Griffith
C J Taylor

Secretary

C J Taylor

Registered office

Grant Way
Isleworth
Middlesex
TW7 5QD

Auditor

Deloitte LLP
Chartered Accountants
London
United Kingdom

Strategic Report

The Directors present their Strategic and Directors' Reports on the affairs of the Company, together with the financial statements and Auditor's Report for the year ended 30 June 2016.

The purpose of the Strategic Report is to inform members of the Company and help them assess how the Directors have performed their duty under section 172 of the Companies Act 2006 (duty to promote the Company).

Business review and principal activities

The Company is a wholly-owned subsidiary of Sky plc ("Sky") and operates together with Sky's other subsidiaries as a part of the Sky Group ("the Group").

The Company operates the leading pay television broadcasting service in the United Kingdom ("UK") and Ireland as well as broadband and telephony services. The Company's principal activities consist of the operation and distribution of wholly-owned television channels via a direct-to-home ("DTH") service and it supplies certain of those channels to cable operators for retransmission to their subscribers in the UK and Ireland.

At 30 June 2016, the total number of customers was 12,446,000 (2015: 12,001,000), representing a net increase of 445,000 customers in the current year.

This year the Company made an operating profit of £267 million (2015: £663 million). The operating margin decreased to 3.43% in 2016 (2015: 8.80%).

The total revenue in 2016 was £7,792 million, a 3% growth from fiscal 2015 (2015: £7,530 million). The Company's revenue can be analysed as follows:

For the year to 30 June	**2016** **£m**	2015 £m
Subscription	**6,575**	6,369
Advertising	**477**	505
Programme and Channel Sales	**530**	452
Transactional	**142**	127
Other	**68**	77
Revenue	**7,792**	7,530

The increase of £206 million in subscription revenue in the current year was driven by continued product and customer growth as a result of our investments in world-class programmes and market leading innovation.

Advertising revenue decreased by £28 million in the current year due to lower AdSmart revenues.

Programme and Channel Sales revenue increased by £78 million in the current year as success on screen led to more favourable terms for our channels with wholesale partners.

Business review and principal activities (continued)

Transactional revenue increased by £15 million in the current year due to the success of our Buy and Keep service and NOW TV transactions.

Other revenue decreased by £9 million in the current year.

Operating expenses for the year

The Company's operating expense can be analysed as follows:

For the year to 30 June

	2016	2015
	£m	£m
Programming	**2,851**	2,777
Sales, general and administration	**4,673**	4,090
Direct network costs	**1**	-
Operating expenses	**7,525**	6,867

The increase of £74 million in programming costs is due to continued investment in original content and box sets. Savings were created by not renewing the Champions League and the absence of the biennial Ryder Cup. Our investment in entertainment was more weighted towards the final quarter of the year, with the return of key shows such as *The Tunnel* and *The Blacklist* alongside the launch of *Billions* on Sky Atlantic.

The increase of £583 million in sales, general and administration costs is mainly due to the full year impact of intellectual property licence fees.

Net assets at the balance sheet date were £1,741 million, a decrease of £381 million from £2,122 million at 30 June 2015. The decrease in the net assets during the year is primarily due to the increase in intercompany loans payable.

During the year, the Company agreed to waive an intercompany loan receivable with Sky International Operations Limited ("SIOL") in return for increasing its investment in SIOL by £245 million.

During the year, as part of a Group funding exercise, the company subscribed to £12 million of shares in SIOL.

In addition, the Company acquired 100% of the issued share capital of Apollo Pass Limited for consideration of £5 million.

During the prior year the Company subscribed to £2,701 million of shares in SIOL. These funds were used to purchase SIOL's shareholding in Sky German Holdings GmbH and Sky Italian Holdings SpA which in turn were used in the acquisition of Sky Deutschland GmbH and Sky Italia Srl.

Current assets increased in the year by £816 million to £14,099 million (2015: £13,283 million). The increase is primarily due to an increase in intercompany loans receivable.

Business review and principal activities (continued)

The audited accounts for the year ended 30 June 2016 are set out on pages 12 to 75. The Directors do not recommend the payment of a final dividend for the year ended 30 June 2016 (2015: nil). For the year ended 30 June 2016 there was a £671 million interim distribution made to Sky plc (2015: £509 million). The distribution was settled by the assignment of intercompany debt within the Group.

During the prior year, as part of a Group reorganisation, assets of the Company amounting to a net book value of £465 million were transferred out to Sky Subscribers Services Limited ("SSSL") and Sky CP Limited. The transfer of assets to Sky CP Limited was settled through an intercompany loan agreement between the two entities. The transfer of assets to SSSL was settled through the receipt of 1 ordinary share in SSSL.

In addition, as part of the acquisition of Sky Deutschland and Sky Italia, the Company entered into various financing arrangements, the details of which can be found in notes 15 and 16 of the financial statements.

On 19 March 2015, the Company completed the sale of its investments in Bonne Terre Limited and Hestview Limited (the entities also known as "Sky Bet") to funds advised by CVC Capital Partners and members of the Sky Bet management team for consideration amounting to £730 million. A profit of £766 million arose on the disposal of these investments. The Company has retained an equity stake of 20% post completion in Sky Bet.

No such transactions have occurred in the current year.

There have not been any significant changes in the Company's activities in the year under review. The Directors are not aware, at the date of this report, of any likely major changes in the Company's activities in the next year.

On 17 November 2015, Sky plc issued €500 million of 2.25% Euro denominated bonds due November 2025 to which the Company acts as guarantor.

Post balance sheet events

There were no post balance sheet events.

Key performance indicators (KPIs)

The Group manages its operations on a divisional basis. For this reason, the Company's directors believe that further key performance indicators for the Company are not necessary or appropriate for an understanding of the development, performance or position of the Company.

The Group's KPIs are disclosed separately in the Group's Annual Report. Please see note 28 for details of where these are available.

Principal risks and uncertainties

The Company's business is heavily regulated and changes in regulations, changes in interpretation of existing regulations or failure to obtain required regulatory approvals or licences could adversely affect the Company's ability to operate or compete effectively. The Company's business is reliant on technology which is subject to the risk of failure,

Principal risks and uncertainties (continued)

change and development. The Company operates in a highly competitive environment that is subject to rapid change and it must continue to invest to remain competitive. The failure of key suppliers could affect the Company's ability to operate as a business. The Company relies on a number of third parties and outsourced suppliers to support its supply chain. The Company's business is based on a subscription model and its future success relies on building long-term relationships with its customers. The Company generates wholesale revenue principally from one customer.

The Group's principal risks and uncertainties are disclosed in the Group's Annual Report, please see note 28 for further information.

Financial risk management objectives and policies

The Company activities expose it to a number of financial risks including market risk, credit risk and liquidity risk. The use of financial derivatives is governed by the Group's treasury policy approved by the Board of Directors, which provide written principles on the use of financial derivatives to manage these risks. The Company does not use derivative financial instruments for speculative purposes. Refer to note 21 for further information.

Market Risk

The Company's principal market risks are exposure to changes in interest rates and foreign exchanges rates, which arise both from the Company's sources of finance and its operations.

Interest rate risk

The Company has financial exposure to UK and European interest rates arising from the investment of surplus cash, interest rate derivatives transacted on behalf of the group and various loan balances with other companies within the Group. The Group's Treasury function monitors the Company's exposure to fluctuations in interest rates.

Foreign exchange risk

The Company's activities expose it to the financial risks of changes in foreign currency exchange rates. The Company uses foreign exchange forward contracts and options to hedge these exposures. Refer to note 21 for further information.

Price Risk

The Company is not exposed to significant price risk.

Credit risk

The Company's principal financial assets are cash, cash equivalents, short-term deposits, trade and other receivables and derivative financial assets.

The Company's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. This is recognised when there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

The credit risk on cash, cash equivalents, and short-term deposits is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. 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 AAA-rated liquidity

Credit risk (continued)

funds. The balance sheet of the Company includes intercompany balances and the Company is therefore exposed to credit risk on these balances. The intercompany balances of the Company are detailed in notes 15 and 16.

The Company has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers, other than other Group companies.

Liquidity risk

The Company relies on the Group Treasury function to manage its liquidity and ensure that sufficient funds are available for ongoing operations and future developments. The Group currently has access to an undrawn £1 billion revolving credit facility which is due to expire in November 2021. The Company benefits from this liquidity through intra-group facilities and loans.

Employment policies

Organisation

Over the past year, the Company has continued in its efforts to make the Company a great place to work. The Company has continued to place particular focus on leadership capability, looking both at the Company's leaders of today and future leaders.

The average monthly number of full-time equivalent persons employed by the Company during the year was 6,732 (2015: 7,050).

Leadership and Collaboration

The Company has articulated six behaviours that we believe are vital for our leaders to embrace to help us grow our business. These are: Clear Direction, Doing the Right Thing, Feedback and Development, Change and Improvement, Teamwork and Collaboration and Empowerment.

The most senior leaders have received detailed individual feedback on their leadership style and have been given support in their development against these through a variety of means including coaching, workshops and events. The behaviours are built into the Company's leadership and management programmes at all levels and our leaders are measured against them in their performance reviews.

The Company has also run comprehensive development programmes for the leaders in its contact centres to ensure they are equipped to motivate and manage their teams to deliver the best possible customer service.

Managing and developing our people

Building our capability

With our people at the heart of everything we do, making sure everyone has the right skills to do their jobs is vital. The Development Studio offers a wide range of resources that enable everyone in the Company to have access to the latest

Managing and developing our people (continued)

Building our capability (continued)

e-learning, MP3 downloads, books and courses. This has been across a range of subjects including multi-skilling. The effectiveness of the training is tracked by testing individuals pre and post training.

Creating opportunities for all

There is a specific focus on succession planning and creating career development opportunities for employees with regular meetings with the senior executive team to plan internal mobility and cross-functional moves.

We believe in attracting and nurturing future talent to support our growth so we have continued to develop our future talent programme. This year it has continued to go from strength to strength. Our future talent programme focuses on developing students still in education, school leavers and graduates. This year, the Company increased its graduate intake and will be providing a new centralised graduate development programme aimed at building the leaders of tomorrow. For school leavers, the apprenticeship scheme is continuing to expand, doubling the size of its intake. Work placement opportunities also provide an opportunity for the Company to contribute to the development and experience of young people.

The Company is an equal opportunity employer and believes that everyone should have full and fair consideration for all vacancies, promotions, training and development. Should an employee become disabled during their employment with the Company, where possible, the Company will actively re-train and adjust their environment to allow them to maximise their potential. Over the year, the Company has partnered with various not-for-profit organisations with the aim of providing more opportunities for people with disabilities.

Employee engagement

At Sky, we want all our people to feel involved and engaged in our business. We listen to our people through our people survey and benchmark our results externally using data from Aon Hewitt. We continue to experience high levels of participation in our people survey, averaging 77% across the two surveys this year and high levels of engagement amongst our UK and Ireland employees that are 10% above the external benchmark.

Diversity

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

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

Reward and Recognition

The Company continues to provide a generous benefits package to all its employees and to benchmark pay against relevant industry norms to ensure that the Company's reward practices are meeting the evolving needs of the business.

Managing and developing our people (continued)

Reward and Recognition (continued)

The Company's various recognition schemes ensure that its people are recognised for their outstanding contribution to the business.

Health, Safety and Wellbeing

The health, safety and wellbeing of the Company's people are of paramount importance: wherever, whenever they work and whatever they are doing.

Employment policies (continued)

Health, Safety and Wellbeing (continued)

The Company takes a holistic approach to keeping the Company a safe place to work, so whilst accident prevention and safety training is important, the long-term wellbeing of the Company's employees is equally important.

The Company's Occupational Health service supports employees with staying productive with a range of support and facilities to help keep people healthy and happy. Some on-site complementary therapies have been introduced at some of our sites.

By Order of the Board,

C Taylor

C Taylor
Director
Grant Way
Isleworth
Middlesex
TW7 5QD

31 October 2016

Directors' Report
The Directors who served during the year are shown on page 1.

The Directors do not recommend the payment of a final dividend in the current year (2015: nil).

The Company has chosen, in accordance with section 414C(11) of Companies Act 2006, to include such matters of strategic importance to the Company in the Strategic Report which otherwise would be required to be disclosed in the Directors' report.

Going concern
After making enquiries, the Directors have formed a judgement at the time of approving the financial statements that the Company will have access to adequate resources to continue in existence for the foreseeable future. In making this decision the Directors have considered the net current liability position of the company, and confirmation received from Sky In-Home Service Limited, Sky Telecommunications Services Limited and Sky plc, for at least 12 months from the date of signing these financial statements, they will not demand payment of any amounts owed to them by the company where such repayment would prevent the company from continuing to settle it's third party liabilities as they fall due. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Auditor
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 ought to have taken as a Director to make himself aware of any relevant audit information (as defined) and to establish that the Company's auditor is aware of that information.

Deloitte LLP have expressed their willingness to continue as auditor and a resolution to reappoint them was approved by the Board of Directors on 31 October 2016.

By Order of the Board,

C. Taylor

C Taylor
Director
Grant Way
Isleworth
Middlesex
TW7 5QD

31 October 2016

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 have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements 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.

Auditor's Report

Independent Auditor's report to the members of Sky UK Limited:
We have audited the financial statements of Sky UK Limited for the year ended 30 June 2016 which comprise the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, the Cash Flow Statement, the Statement of Changes in Equity and the related notes 1 to 28. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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.

Respective responsibilities of Directors and auditor
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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Opinion on financial statements
In our opinion the financial statements:

- give a true and fair view of the Company's affairs as at 30 June 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Separate opinion in relation to IFRSs as issued by the IASB
As explained in note 1 to the financial statements, the Company in addition to applying IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

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

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Paul Franek (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
31 October 2016

Income Statement

For the year ended 30 June 2016

	Notes	2016 £m	2015 £m
Revenue	2	**7,792**	7,530
Operating expense	3	**(7,525)**	(6,867)
Operating profit		**267**	663
Investment income	5	**134**	117
Income from shares in subsidiary undertakings	5	**-**	44
Finance costs	5	**(224)**	(155)
Impairment of investment	4	**(5)**	(29)
Profit on disposal of investment	12	**-**	766
Profit before tax	6	**172**	1,406
Tax	8	**(23)**	(71)
Profit for the year attributable to equity shareholder		**149**	1,335

The accompanying notes are an integral part of this Income Statement.

All results relate to continuing operations.

Statement of Comprehensive Income

For the year ended 30 June 2016

	2016 £m	2015 £m
Profit for the year attributable to equity shareholder	**149**	1,335
Other comprehensive income		
Amounts recognised directly in equity that may subsequently be recycled to the income statement		
Gain (loss) on revaluation of available-for-sale investments	**1**	(1)
Gain on cash flow hedges	**178**	61
Tax charge on cash flow hedges	**(35)**	(12)
	144	48
Amounts reclassified and reported in the income statement		
Loss on cash flow hedges	**(3)**	(53)
Tax credit on cash flow hedges	**1**	10
	(2)	(43)
Other comprehensive profit for the year (net of tax)	**142**	5
Total comprehensive income for the year attributable to equity shareholder	**291**	1,340

All results relate to continuing operations.

Balance Sheet

As at 30 June 2016	Notes	2016 £m	2015 £m
Non-current assets			
Intangible assets	9	**244**	226
Goodwill	10	**88**	88
Property, plant and equipment	11	**856**	731
Deferred tax assets	13	**-**	59
Trade and other receivables	15	**83**	72
Investment in subsidiaries	12	**4,970**	4,541
Investments in joint ventures and associates	12	**90**	90
Derivative financial assets	20	**664**	227
Available-for-sale investments	20	**1**	4
		6,996	6,038
Current assets			
Inventories	14	**579**	514
Trade and other receivables	15	**11,224**	10,314
Short-term deposits	20	**-**	1,100
Cash and cash equivalents	20	**2,094**	1,319
Derivative financial assets	20	**202**	36
		14,099	13,283
Total assets		**21,095**	19,321
Current liabilities			
Trade and other payables	16	**18,215**	16,677
Borrowings	19	**6**	7
Current tax liabilities		**134**	142
Provisions	17	**58**	33
Derivative financial liabilities	20	**124**	41
		18,537	16,900
Non-current liabilities			
Trade and other payables	18	**48**	50
Borrowings	19	**1**	2
Provisions	17	**18**	26
Derivative financial liabilities	20	**740**	221
Deferred tax liabilities	13	**10**	-
		817	299
Total liabilities		**19,354**	17,199
Share capital	22	**10**	10
Reserves	23	**1,731**	2,112
Total equity attributable to equity shareholder	23	**1,741**	2,122
Total liabilities and shareholder's equity		**21,095**	19,321

The accompanying notes are an integral part of this Balance Sheet. The financial statements of Sky UK Limited, registered number 02906991, were approved by the Board of Directors on 31 October 2016 and were signed on its behalf by:

A J Griffith, Director, 31 October 2016

Cash Flow Statement

For the year ended 30 June 2016

	Note	2016 £m	2015 £m
Cash flows from operating activities			
Cash generated from operations	24	**930**	2,868
Interest received		**9**	12
Tax paid		**(186)**	(221)
Net cash from operating activities		**753**	2,659
Cash flows from investing activities			
Funding to the Group's joint ventures and associates		**(8)**	(10)
Dividends received from the Group's joint ventures and associates		**20**	25
Purchase of property, plant and equipment		**(206)**	(211)
Purchase of intangible assets		**(69)**	(191)
Purchase of investments in subsidiaries		**-**	(2,703)
Purchase of subsidiaries (net of cash and cash equivalents purchased)		**(5)**	-
Proceeds from disposal of investment in subsidiary		**-**	598
Purchase of available-for-sale investments		**-**	-
Decrease/(increase) in short-term deposits		**1,100**	(805)
Net cash used in investing activities		**832**	(3,297)
Cash flows generated from financing activities			
Net proceeds from Group borrowings		**353**	5,364
Issue of loans to subsidiaries		**-**	(3,639)
Purchase of shares for Group ESOP		**(200)**	(12)
Interest paid on behalf of the Sky Group		**(229)**	(235)
Dividends paid to Sky Group plc shareholders		**(564)**	(549)
Purchase of non-controlling interests		**(170)**	-
Net cash (used in) from financing activities		**(810)**	929
Net increase in cash and cash equivalents		**775**	291
Cash and cash equivalents at the beginning of the year		**1,319**	1,028
Cash and cash equivalents at the end of the year		**2,094**	1,319

The accompanying notes are an integral part of this Cash Flow Statement.

Unless otherwise stated, all cash flows relate to continuing operations.

Statement of Changes in Equity

For the year ended 30 June 2016

	Share capital	Share premium	Hedging reserve	Available-for-sale reserve	Retained earnings	Total shareholder's equity
	£m	£m	£m	£m	£m	£m
At 1 July 2014	**10**	**-**	**(6)**	**(1)**	**1,271**	**1,274**
Profit for the year	-	-	-	-	1,335	1,335
Revaluation of available-for-sale investments	-	-	-	(1)	-	(1)
Recognition and transfer of cash flow hedges	-	-	8	-	-	8
Tax on items taken directly to equity	-	-	(2)	-	-	(2)
Total comprehensive income for the year	**-**	**-**	**6**	**(1)**	**1,335**	**1,340**
Tax on items taken directly to equity	-	-	-	-	17	17
Distribution to parent company	-	-	-	-	(509)	(509)
At 30 June 2015	**10**	**-**	**-**	**(2)**	**2,114**	**2,122**
Profit for the year	-	-	-	-	149	149
Revaluation of available-for-sale investments	-	-	-	1	-	1
Recognition and transfer of cash flow hedges	-	-	175	-	-	175
Tax on items taken directly to equity	-	-	(34)	-	-	(34)
Total comprehensive income for the year	**-**	**-**	**141**	**1**	**149**	**291**
Tax on items taken directly to equity	-	-	-	-	(1)	(1)
Distribution to parent company	-	-	-	-	(671)	(671)
At 30 June 2016	**10**	**-**	**141**	**(1)**	**1,591**	**1,741**

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

Notes to the financial statements

1. Accounting policies

Sky UK Limited (the "Company") is a limited liability company incorporated in the United Kingdom and registered in England and Wales.

a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and the Companies Act 2006. In addition, the Company also complied with IFRS as issued by the International Accounting Standards Board ("IASB").

b) Basis of preparation

The financial statements have been prepared on a going concern and historical cost basis, except for the remeasurement to fair value of certain financial assets and liabilities as described in the accounting policies below. The Company has adopted the new accounting pronouncements which became effective this period, none of which had any significant impact on the Company's results or financial position.

The Company maintains a 52 or 53 week fiscal year ending on the Sunday nearest to 30 June in each year. In fiscal year 2016, this date was 3 July 2016, this being a 53 week year (fiscal year 2015: 28 June 2015, 52 week year). For convenience purposes, the Company continues to date its financial statements as at 30 June. The Company 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 Company.

The Company has taken advantage of the exemption from preparing the consolidated accounts afforded by section 400 of the Companies Act 2006, because it is a wholly-owned subsidiary of Sky plc ("Sky") which prepares consolidated accounts which are publicly available (see note 28).

c) Foreign currency translation

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

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

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

1. Accounting policies (continued)

d) Intangible assets (continued)

The amortisation of an intangible asset begins when the asset is available for use, and is charged to the income statement through operating expenses 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:

Internally generated intangible assets	5 to 25 years straight-line
Software development (external) and software licences	3 to 7 years straight-line
Other intangible assets	1 to 5 years straight-line

e) Property, plant and equipment ("PPE")

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

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

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

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

To the extent that the financing for a qualifying asset is part of the Company'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.

Notes to the financial statements

1. Accounting policies (continued)

f) Investment in subsidiaries, joint ventures or associates

An investment in a subsidiary, joint venture or associate 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, joint ventures or associates.

g) Derivative financial instruments and hedging activities

The Company uses derivative financial instruments to hedge its exposure to fluctuations in 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 Company 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 Company 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 Company. 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 Company 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 are designated in a fair value hedge relationship as a result of the Company's investments in Sky International Operations Limited ("SIOL") which is measured at historic cost in accordance with IAS 21. This exposes the Company to foreign exchange risk at the time the investment is sold or impaired. These are subject to cash flow hedge accounting or fair value hedge accounting respectively. Certain other derivatives held by the Company 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 Company does not hold or issue derivatives for speculative purposes.

i. Derivatives that qualify for cash flow hedge accounting

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

At inception, the effectiveness of the Company'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 Company'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 Company's hedging instruments is calculated using the hypothetical derivative method, with

Notes to the financial statements

1. Accounting policies (continued)

g) Derivative financial instruments and hedging activities (continued)

i. Derivatives that qualify for cash flow hedge accounting (continued)

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

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

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.

h) Inventories

i. Acquired and commissioned television programme inventories for broadcast

Programme inventories for broadcast are stated at the lower of cost and net realisable value ("NRV"), including, where applicable, estimated subscriber escalation payments, and net of the accumulated expense charged to the income statement to date.

Such programming rights are included as inventories when the legally enforceable licence period commences and all of the following conditions have been met: (a) the cost of each programme is known or reasonably determinable; (b) the programme material has been accepted by the Company 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 inventory on the Company's Balance Sheet but are instead disclosed as contractual commitments (see note 26).

1. Accounting policies (continued)

h) Inventories (continued)

i. Acquired and commissioned television programme inventories for broadcast (continued)

Payments made in advance of the legal right to broadcast programmes are treated as prepayments.

The cost of television programme inventories is recognised in the operating expense line of the income statement, over the period the Company utilises the programming rights, taking into account the circumstances primarily as described below. These circumstances may change or evolve over time and as such, the Company regularly reviews and updates the method used to recognise programming expense.

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

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

ii. Set-top boxes, routers and related equipment

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

i) Financial assets and liabilities

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

Notes to the financial statements

1. Accounting policies (continued)

i) Financial assets and liabilities (continued)

i. 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.

ii. 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 Company's cash management are included as a component of cash and cash equivalents where offset conditions are met.

iii. 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 or fair value through the income statement less any allowance for impairment losses.

iv. 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.

v. 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 unless or until the investment is disposed of and are determined with reference to the closing market share price at the balance sheet date. Any subsequent increase in the fair value of the available-for-sale investment above the impaired value will be recognised within the available-for-sale reserve.

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

vi. Investments 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

Notes to the financial statements

1. Accounting policies (continued)

vi. Investments in subsidiaries (continued)

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.

vii. Investments in associates and joint ventures

An investment in an associate or joint venture 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 associate or joint venture undertakings.

j) Impairment

At each balance sheet date, in accordance with IAS 36 "Impairment of Assets", the Company reviews the carrying amounts of all its assets excluding inventories and deferred tax (see accounting policies h) and o) respectively), 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. 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 Company 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 to goodwill is not reversed.

k) Provisions

Provisions are recognised when the Company 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 Company'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.

l) Revenue recognition

Revenue, which excludes value added tax, represents the gross inflow of economic benefit from the Company's operating activities. The Company's main sources of revenue are recognised as follows:

- Subscription revenue includes revenue from residential and commercial subscribers to TV and communication products, including over-the-top ("OTT") subscriptions, and income from set-top box sales and installation,

Notes to the financial statements

1. Accounting policies (continued)

l) Revenue recognition (continued)

service calls and warranties. Revenue is recognised, net of any discount given, as the goods or services are provided.

- Transactional revenue includes the purchase of physical content, OTT passes, pay per view and buy to keep content by residential and commercial customers. Transactional revenue is recognised, net of any discount given, when the relevant goods or services are provided.

- Programme and channel sales revenue includes revenue from the sale of channels and programmes across other platforms and internationally. Channel sales revenue is recognised as the services are provided to cable and other retailers and is based on the number of subscribers taking the Sky channels, as reported to the Company by the cable and other retailers, and the applicable rate card or contract. Programming 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 and distribution revenue is recognised when the contract is signed and the content is available for exploitation. The stage of completion is determined by comparing the proportion of costs incurred to date to the total estimated cost of the transaction.
- Advertising sales revenue is recognised when the advertising is broadcast. Revenue generated from airtime sales, where Sky acts as an agent on behalf of third parties, is recognised on a net commission basis.

- Other revenue principally includes income from technical platform services, and the provision of network services. Other revenue is recognised, net of any discount given, when the relevant goods or service are provided.

Revenue is measured at the fair value of the consideration received or receivable. When the Company 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 Company recognises for delivered elements is limited to the cash received.

m) Employee benefits

Wages, salaries and social security contributions

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.

Pension obligations

The Company 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 Company to the scheme in exchange for employee services rendered in that year. The assets of the schemes are held independently of the Company.

Termination benefits

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

Notes to the financial statements

1. Accounting policies (continued)

m) Employee benefits (continued)

Equity compensation benefits

Within the consolidated financial statements of the Company's ultimate parent company, there are a number of equity-settled share option schemes relating to employees of the Company. Accordingly, the Company issues equity-settled share-based payments to certain employees which must be measured at fair value and recognised as an expense in the income statement, with a corresponding increase in equity. The fair values of equity-settled 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 Company's estimate of the number of awards which will be forfeited, either due to employees leaving the Company 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 Company or by a participating employee, the compensation expense that would have been recognised over the remainder of the vesting period is recognised immediately in the income statement.

n) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the asset to the lessee. All other leases are classified as operating leases.

The Company as lessor

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

The Company as lessee

Assets held under finance leases are recognised as assets of the Company 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 obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

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

o) Taxation, including deferred tax

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

Deferred tax assets and liabilities are recognised using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the balance sheet and the corresponding tax bases used in the computation of taxable profit. Temporary differences arising from goodwill and except in a business combination, the initial recognition of assets or liabilities that affect neither accounting profit nor taxable profit are not provided for.

Notes to the financial statements

1. Accounting policies (continued)

o) Taxation, including deferred tax (continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates that have been enacted or substantively enacted at the balance sheet date.

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

p) Dividends

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

q) Critical accounting policies

Certain accounting policies are considered to be critical to the Company. An accounting policy is considered to be critical if, in the Directors' judgement, its selection or application materially affects the Company's financial position or results.

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

i. Revenue (see note 2)

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

ii. Taxation, including deferred taxation

– The Company's tax charge is the sum of the total current and deferred tax charges. The calculation of the Company'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

Notes to the financial statements

1. Accounting policies (continued)

q) Critical accounting policies (continued)

ii. Taxation, including deferred taxation (continued)

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 financial statements in respect of each matter are derived from the Company'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 Company would be required to make an adjustment in a subsequent period which could have a material impact on the Company's profit and loss and/or cash position.
- The key area of judgement in respect of deferred tax accounting is the assessment of the expected timing and manner of realisation or settlement of the carrying amounts of assets and liabilities held at the balance sheet date. In particular, assessment is required of whether it is probable that there will be suitable future taxable profits against which any deferred tax assets can be utilised.

iii. Intangible assets and property, plant and equipment (see notes 9 and 11)

- The assessment of the useful economic lives and the method of amortising these assets requires judgement. Depreciation and amortisation are charged to the income statement based on the useful economic life selected, which requires an estimation of the period and profile over which the Company expects to consume the future economic benefits embodied in the assets. The Company reviews its useful economic lives on at least an annual basis.
- Determining whether the carrying amount of these assets has any indication of impairment also requires judgement. If an indication of impairment is identified, further judgement is required to assess whether the carrying amount can be supported by the net present value of future cash flows forecast to be derived from the asset. This forecast involves cash flow projections and selecting the appropriate discount rate.
- Assessing whether assets meet the required criteria for initial capitalisation requires judgement. This requires a determination of whether the assets will result in future benefits to the Company. In particular, internally generated intangible assets must be assessed during the development phase to identify whether the Company has the ability and intention to complete the development successfully.

iv. Programming inventory (see note 14)

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

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

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

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

1. Accounting policies (continued)

q) Critical accounting policies (continued)

iv. Programming inventory (see note 14) (continued)

- Expectations as to the number of viewers a programme is likely to achieve for each individual broadcast on the Company'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 Company'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 Company, as they attract new TV customers and encourage retention of existing TV customers. As such, these programmes are able to retain more value throughout their licence period than would be indicated when considering the expected customer viewing and consumption numbers alone.
- The relative value associated with linear channel and non-linear rights are assessed based on the manner in which the Company expects to utilise the programming rights and the relative value perceived by customers for the Company's channels and services. Those relative values may also differ based on the type and genre of programme. Such values are reviewed by the Company against current and expected future trends in customer viewing behaviour for the Company'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 Company considers this to be the profile most closely aligned to its consumption of those rights.

v. Goodwill (see note 10)

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

vi. Investments in subsidiaries, joint ventures and associates (see note 12)

The Company reviews the carrying amounts of its investment to determine whether there is any indication that the investment has suffered an impairment loss.

r) Accounting standards, interpretations and amendments to published standards not yet effective

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

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

1. Accounting policies (continued)

r) Accounting standards, interpretations and amendments to published standards not yet effective (continued)

- Amendments to IFRS 10,12 and IAS 28 'Investment Entities: Applying the Consolidation Exception' (effective 1 January 2016)*
- Amendments to IAS 7 'Disclosure Initiative' (effective 1 January 2017)*
- Amendments to IAS 12 'Recognition of Deferred Tax Assets for Unrealised Losses' (effective 1 January 2017)*
- IFRS 15 'Revenue from Contracts with Customers' (effective 1 January 2018)*

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

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

  IFRS 15 requires that certain costs incurred in obtaining and fulfilling customer contracts be deferred on the balance sheet and amortised as revenue is recognised under the related contract.
- Clarifications to IFRS 15 'Revenue from Contracts with Customers' (effective 1 January 2018)*
- Amendments to IFRS 2 'Share-based Payments' (effective 1 January 2018)*
- IFRS 9 'Financial Instruments' (effective 1 January 2018)*

  The standard is expected to impact the classification and measurement of financial instruments and is expected to require certain additional disclosures.
- IFRS 16 'Leases' (effective 1 January 2019)*

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

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

* not yet endorsed for use in the EU.

2. Revenue

	2016	2015
	£m	£m
Subscription	**6,575**	6,369
Advertising	**477**	505
Programme and Channel Sales	**530**	452
Transactional	**142**	127
Other	**68**	77
	7,792	7,530

Revenue arises from goods and services provided to the United Kingdom, with the exception of £428 million (2015: £241 million) which arises from services provided to the Republic of Ireland.

3. Operating expense

	2016	2015
	£m	£m
Programming	**2,851**	2,777
Sales, general and administration	**4,673**	4,090
Direct network costs	**1**	-
	7,525	6,867

4. Impairment of Investments

In the current year the Company wrote down its investment in an available for sale investment (charge of £4 million).

In the current year, the Company reduced its investment in Ciel Bleu 6 Limited (charge of £1 million).

During the prior year, as part of Group reorganisations, the Company reduced its investments in Multicultural and Ethnic Media Sales Limited, Virtuous Systems Limited and Dolphin TV Limited (charge of £25 million). A substantial portion of the businesses of these entities was transferred into the Company and accordingly the value of the Company's investments in these subsidiaries was reduced.

Notes to the financial statements

5. Investment income and finance costs

	2016 £m	2015 £m
Investment income		
Cash, cash equivalents and short-term deposits	**9**	12
External interest receivable	**7**	-
Intercompany interest receivable(i)	**95**	61
Other interest receivable	**8**	-
Remeasurement of other derivative financial instruments (not qualifying for hedge accounting)	**15**	38
Realised foreign exchange gain on loan	**-**	6
Distribution received from subsidiaries(ii)	**-**	44
	134	161

	2016 £m	2015 £m
Finance costs		
Intercompany interest payable(iii)	**(193)**	(155)
Remeasurement of other derivative financial instruments (not qualifying for hedge accounting)	**(21)**	-
Finance lease interest	**(2)**	-
Realised foreign exchange loss on loan	**(8)**	-
	(224)	(155)

(i) Intercompany interest is receivable on certain loans to Sky Operational Finance Limited (see note 15).

(ii) During 2016, the Company recognised nil dividend income from subsidiary undertakings (2015: £44 million).

(iii) Intercompany interest payable includes interest on US$750 million Guaranteed Notes at 6.100%, repayable in February 2018, US$582.8 million Guaranteed Notes at 9.500%, repayable in November 2018, £300 million Guaranteed Notes at 6.000%, repayable in May 2027, US$800 million Guaranteed Notes at 3.125%, repayable in November 2022 and £503 million RCF agreement at 3.226%.

In October 2005, Sky Group Finance plc issued Guaranteed Notes. Intercompany interest is payable to Sky Group Finance plc on these Guaranteed Notes, consisting of US $750 million aggregate principal amount of notes paying 5.625% interest and maturing on 15 October 2015, £400 million aggregate principal amount of notes paying 5.750% interest and maturing on 20 October 2017 and US $350 million aggregate principal amount of notes paying 6.500% interest and maturing on 15 October 2035.

In September 2014, as part of the acquisition of Sky Deutschland and Sky Italia, the Company entered into various intercompany loan agreements with Sky Operational Finance Limited. Intercompany interest is payable to Sky Operational Finance Limited on these loans consisting of a €581 million loan at EURIBOR +0.656%, €1,500 million of 1.5% Guaranteed, a loan of €969 million at 2.19%, €1,000 million of 2.5% Guaranteed and €400 million of 2.75% Guaranteed Notes repayable in November 2029. These loans are all repayable on demand.

5. Investment income and finance costs (continued)

In addition in November 2014, the Company entered into further intercompany loan arrangements with Sky Operational Finance Limited. Intercompany interest is payable to Sky Operational Finance Limited on these loans consisting of €850 million of 1.875% Guaranteed Notes repayable in November 2023 and a €126 million loan at 2.94% repayable in November 2029.

Borrowing costs included in the cost of qualifying assets during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 2.8% (2015: 3.1%) to expenditure on such assets. The amount capitalised in the current year amounted to £14 million (2015: £8 million).

6. Profit before tax

Profit before tax is stated after charging:

	2016	2015
	£m	£m
Cost of inventories recognised as an expense	**2,056**	1,959
Depreciation and impairment of property, plant and equipment	**81**	100
Impairment of investment in subsidiaries	**1**	25
Amortisation and impairment of intangible assets	**51**	103
Rentals on operating leases and similar arrangements	**36**	34

Foreign exchange

Foreign exchange differences recognised in the income statement during the year amounted to nil. (2015: gain of £2 million).

Audit fees

An analysis of auditor's remuneration is as follows:

	2016	2015
	£m	£m
Total audit fees	**1**	1
Other services pursuant to legislation	**1**	1
Total non-audit fees	**1**	1
	2	2

Fees payable to the Company's auditor for the audit of the annual accounts were £0.4 million (2015: £0.5 million) and fees payable to the Company's auditor for settlement of audit fees on behalf of other group companies were £0.3 million (2015: £0.3 million).

Amounts paid to the auditor for non-audit related fees include audit related services of £0.2 million (2015: £0.2 million), taxation services of £0.3 million (2015: £0.2 million), other assurance services of £0.1 million (2015: £0.1 million), other advisory services of nil (2015: nil) and transaction services of nil (2015: £0.3 million).

Notes to the financial statements

7. Employee benefits and key management compensation

a) Company employee benefits

	2016	2015
	£m	£m
Wages and salaries	**443**	464
Social security costs	**68**	75
Costs of employee share option schemes (i)	**86**	90
Contributions to the Sky Pension Plan ("the Pension Plan") (ii)	**20**	22
	617	651

(i) The expense recognised for employee share option schemes relates wholly to equity-settled share-based payments.

(ii) The Company operates a defined contribution pension scheme through the Pension Plan. The pension charge for the year represents the cost of contributions payable by the Company to the scheme during the year. The Company's amount payable to the scheme at 30 June 2016 was £4 million (2015: £3 million).

The average monthly number of full-time equivalent persons (including temporary employees) employed by the Company during the year was 6,732 (2015: 7,050).

	2016	2015
	Number	Number
Channels and services	**3,368**	3,044
Transmission and technology	**1,202**	2,000
Customer services, sales and marketing	**1,208**	1,219
Management and administration	**954**	787
	6,732	7,050

b) Key management compensation

	2016	2015
	£m	£m
Short-term employee benefits	**2**	2
Share-based payment expense	**4**	2
	6	4

Key management are defined as the Directors of the Company.

During the year the highest paid director was paid compensation of £1,619,968. The highest paid director exercised 382,313 share options under share option schemes. Please refer to Note 22 for further information on Share option and contingent share award schemes.

Notes to the financial statements

8. Tax

a) Tax recognised in the income statement

	2016 £m	2015 £m
Current tax expense		
Current year	**39**	141
Adjustment in respect of prior years	**(28)**	(37)
Total current tax charge	**11**	104
Deferred tax expense		
Origination and reversal of temporary differences	**6**	(41)
Adjustment in respect of prior years	**6**	8
Total deferred tax charge (credit)	**12**	(33)
Tax	**23**	71

b) Tax recognised directly in equity

	2016 £m	2015 £m
Current tax credit relating to share-based payments	**21**	2
Deferred tax (charge) credit relating to share-based payments	**(22)**	15
Deferred tax charge relating to cash flow hedges	**(34)**	(2)
	(35)	15

c) Reconciliation of total tax charge

The tax expense for the year is lower (2015: lower) than the standard blended rate of corporation tax in the UK (20%) (2015: 20.75%) applied to profit before tax. The differences are explained below:

	2016 £m	2015 £m
Profit before tax	**172**	1,406
Profit before tax multiplied by blended rate of corporation tax in the UK of 20% (2015: 20.75%)	**34**	292
Effects of:		
Profit on disposal of investments	**-**	(156)
Non-taxable income	**-**	(9)
Other permanent differences	**10**	(27)
Adjustments in respect of prior years	**(21)**	(29)
Tax	**23**	71

All tax relates to UK corporation tax.

9. Intangible assets

	Internally generated intangible assets	Software development (external) and software licenses	Other intangible assets	Internally generated intangible assets not yet available for use	Acquired intangible assets not yet available for use	Total
	£m	£m	£m	£m	£m	£m
Cost						
At 1 July 2014	380	239	91	57	18	785
Additions	35	14	1	121	20	191
Transferred on Group reorganisation	(242)	(165)	(6)	(100)	(16)	(529)
Disposals	(8)	(2)	-	-	-	(10)
Transfers	60	21	2	(61)	(22)	-
At 30 June 2015	**225**	**107**	**88**	**17**	**-**	**437**
Additions	14	30	1	19	5	69
Disposals	(1)	-	-	-	-	(1)
Transfers	(2)	1	-	2	(1)	-
At 30 June 2016	**236**	**138**	**89**	**38**	**4**	**505**
Amortisation						
At 1 July 2014	172	123	10	-	-	305
Amortisation for the year	62	35	5	-	-	102
Impairment	1	-	-	-	-	1
Transfers on Group reorganisation	(101)	(84)	(2)	-	-	(187)
Disposals	(8)	(2)	-	-	-	(10)
At 30 June 2015	**126**	**72**	**13**	**-**	**-**	**211**
Amortisation for the year	34	13	4	-	-	51
Impairment	-	-	-	-	-	-
Disposals	(1)	-	-	-	-	(1)
At 30 June 2016	**159**	**85**	**17**	**-**	**-**	**261**
Carrying amounts						
At 1 July 2014	208	116	81	57	18	480
At 30 June 2015	99	35	75	17	-	226
At 30 June 2016	**77**	**53**	**72**	**38**	**4**	**244**

9. Intangible assets (continued)

During the prior year, as part of a Group reorganisation, assets of the Company amounting to a net book value of £342 million were transferred out to Sky Subscribers Services Limited ("SSSL") and Sky CP Limited.

The Company's internally generated intangible assets relate to software development associated with the Company's customer management systems and set-top boxes. The Company's other intangible assets include certain assets with indefinite useful lives. The carrying value of these assets is £25 million (2015: £25 million).

The estimated future amortisation charge on finite-lived intangible assets for each of the next five years is set out below. It is likely that amortisation will vary from the figures below as the estimate does not include the impact of any future investments, disposals or capital expenditure.

	2017	2018	2019	2020	2021
Estimated amortisation charge	51	36	24	10	2

10. Goodwill

On the 29 April 2012, the assets of Living TV Group Holdings Ltd, which was put into liquidation as part of a Group restructuring programme, were transferred to the Company in a common control transaction for consideration of £144 million. The net assets acquired were transferred at book value of £144 million. On transfer the carrying value of the goodwill was £18 million, and the carrying value of the intangible asset relating to the customer contract between Living TV Group Holdings and the Company was £70 million. This resulted in the recognition of £88 million of goodwill by the Company.

11. Property, plant and equipment

	Freehold land and buildings (i) £m	Leasehold improvements £m	Equipment, furniture and fixtures(ii) £m	Assets not yet available for use £m	Total £m
Cost					
At 1 July 2014	323	40	706	84	1,153
Additions	2	-	15	208	225
Disposals	(4)	-	(22)	-	(26)
Transfers	57	-	49	(106)	-
Transfers out on Group reorganisation	-	-	(104)	(68)	(172)
At 30 June 2015	**378**	**40**	**644**	**118**	**1,180**
Additions	7	-	47	152	206
Disposals	-	(2)	(20)	-	(22)
Transfers	19	-	11	(30)	-
Transfers out on Group reorganisation	-	-	-	-	-
At 30 June 2016	**404**	**38**	**682**	**240**	**1,364**
Depreciation					
At 1 July 2014	37	31	356	-	424
Depreciation	7	4	85	-	96
Impairment	2	-	2	-	4
Disposals	(4)	-	(22)	-	(26)
Transfers out on Group reorganisation	-	-	(49)	-	(49)
At 30 June 2015	**42**	**35**	**372**	**-**	**449**
Depreciation	11	3	64	-	78
Impairment	-	1	2	-	3
Disposals	-	(2)	(20)	-	(22)
Transfers out on Group reorganisation	-	-	-	-	-
At 30 June 2016	**53**	**37**	**418**	**-**	**508**
Carrying amounts					
At 1 July 2014	286	9	350	84	729
At 30 June 2015	336	5	272	118	731
At 30 June 2016	**351**	**1**	**264**	**240**	**856**

(i) Depreciation was not charged on £77 million of land (2015: £77 million).

(ii) The amounts shown include assets held under finance leases with a net book value of £3 million (2015: £5 million). The cost of these assets was £9 million (2015: £9 million) and the accumulated depreciation was £6 million (2015: £4 million). Depreciation charged during the year on such assets was £2 million (2015: £2 million)

11. Property, plant and equipment (continued)

During the prior year, as part of a Group reorganisation, assets of the Company amounting to a net book value of £123 million were transferred out to Sky Subscribers Services Limited ("SSSL") and Sky CP Limited.

12. Investment in subsidiaries, joint ventures and associates

(i) Non-current loans and subscription for shares in subsidiaries

The movement in the year was as follows:

	Loans £m	Shares £m	2016 £m	2015 £m
Cost and funding				
Beginning of year	36	4,592	4,628	1,482
Subscription for shares	-	263	263	3,184
Impairment of investments	-	(1)	(1)	(25)
Remeasurement of derivative financial instruments qualifying for hedge accounting	-	167	167	(10)
Working capital adjustment	-	-	-	-
Disposals	-	-	-	(3)
End of year	**36**	**5,021**	**5,057**	4,628
Amounts provided				
Beginning of year	(5)	(82)	(87)	(87)
End of year	**(5)**	**(82)**	**(87)**	(87)
Net book value				
Beginning of year	31	4,510	4,541	1,395
End of year	**31**	**4,939**	**4,970**	4,541

Investment in subsidiaries shown above represents the cost of the shares of the wholly-owned subsidiary undertakings plus non-current loans advanced, less provisions made for any impairment in value. All non-current loans to subsidiaries are non-interest bearing.

During the current year, the Company agreed to waive an intercompany loan receivable with SIOL in return for increasing its investment in SIOL by £245 million.

During the year, as part of a Group funding exercise, the company subscribed to £12 million of shares in SIOL.

In addition, the Company acquired 100% of the issued share capital of Apollo Pass Limited for consideration of £5 million.

During the year, the Company reduced its investments in Ciel Bleu 6 Limited (charge of £1 million).

During the prior year, as part of the acquisitions of Sky Deutschland and Sky Italia, the Company acquired £2,701 million of shares in SIOL. These funds were used to purchase SIOL's shareholding in Sky German Holdings GmbH and Sky Italian Holdings SpA which in turn were used by Sky German Holdings GmbH and Sky Italian Holdings SpA to purchase Sky Deutschland AG and Sky Italia Srl.

12. Investment in subsidiaries, joint ventures & associates (continued)

(i) Non-current loans and subscription for shares in subsidiaries (continued)

During the prior year, as part of a Group reorganisation, the Company subscribed to £432 million of shares in Sky CP Limited and £51 million of shares in SSSL.

In addition during the prior year the Company completed the sale of its controlling stake in the online and gaming business, Sky Betting & Gaming ("Sky Bet"), to funds advised by CVC Capital Partners and members of the Sky Bet management team. The profit recognised on disposal of this investment amounted to £766 million.

During the prior year, as part of Group reorganisations, the Company reduced its investments in Multicultural and Ethnic Media Sales Limited, Virtuous Systems Limited and Dolphin TV Limited (charge of £25 million). A substantial portion of the businesses of these entities was transferred into the Company and accordingly the value of the Company's investments in these subsidiaries was reduced.

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 operate in their country of incorporation.

Details of the investments of the Company are as follows:

Incorporated in England and Wales
Grant Way, Isleworth, Middlesex TW7 5QD

Name
Direct holdings
Amstrad Limited *(159 Ordinary Shares of £0.10 each (99.375%))*
Apollo Pass Limited
British Sky Broadcasting Limited
Ciel Bleu 6 Limited
Dolphin TV Limited
International Channel Pack Distribution Limited
MEMSTV Limited
Multicultural & Ethnic Media Sales Limited
NOW TV plc
Parthenon Media Group Limited
Rivals Digital Media Limited
Sky Channel Limited
Sky CP Limited
Sky Europe Limited
Sky Global Media plc
Sky Group Limited
Sky Healthcare Scheme 2 Limited
Sky Home Communications Limited
Sky In-Home Service Limited
Sky International Limited
Sky International Operations Limited
Sky LLU Assets Limited

Sky Mobile Services Limited
Sky New Media Ventures Limited
Sky News Limited
Sky Publications Limited
Sky Retail Stores Limited
Sky SNI Limited
Sky Subscribers Services Limited
Sky Telecommunications Limited
Sky Telecommunications Services Limited
Sky Ventures Limited
The Cloud Networks Limited
Tour Racing Limited *(85 Ordinary A Shares of £1 each (85%))*
Virtuous Systems Limited

Indirect holdings

Blast! Films Limited (10,300 ordinary shares of £0.00001 each (51.5%))
Cymru International Limited
Kidsprog Limited
Love Productions Limited *(7,724 Ordinary Shares of £1 each (70%))*
Newserge Limited
Parthenon 1 Limited
Parthenon 2 Limited
Parthenon Entertainment Limited
Sky Comedy Limited
Sky History Limited
Sky IP International Limited
Sky IQ Limited
Sky SNA Limited
Sky SNI Operations Limited
Una Tickets Limited

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

Name
Indirect holdings
Znak Jones Productions Limited

Incorporated in Germany

Medienallee 26, 85774 Unterföhring, Munich

Name
Indirect holdings
Premiere WIN Fernsehen GmbH
SCAS Satellite CA Services GmbH
Sky Deutschland Fernsehen Gmbh & Co.KG
Sky Deutschland GmbH
Sky Deutschland Verwaltungs GmbH
Sky German Holdings GmbH
Sky Hotel Entertainment GmbH

Oderstraße 59, 14513 Teltow, Potsdam

Name
Indirect holdings
Sky Deutschland Customer Center GmbH

Eckdrift 109, 19061 Schwerin-Krebsförden

Name
Indirect holdings
Sky Deutschland Service Center GmbH

Incorporated in Italy

Via Monte Penice, 7-20138 Milan

Name
Indirect holdings
Sky Italia S.r.l
Nuova Società Televisiva Italiana S.r.l
Sky Italia Network Services S.r.l
Sky Italian Holdings SpA
Telepiù S.r.l

Incorporated in the USA

Corporation Trust Center 1209 Orange Street, Wilmington, New Castle, Delaware, 19801

Name
Indirect holdings
BSkyB US Holdings, Inc.

1675 S. State Street, Suite B, Dover, DE 19901

Name
Indirect holdings
Callisto Media West, LLC
Jupiter Entertainment, LLC
Jupiter Entertainment Holdings LLC *(Membership interest (60%))*
Jupiter Entertainment North, LLC

4800 Old Kingston Pike, Suite 2200, Knoxville, TN 37919

Name
Indirect holdings
PhotoOps, LLC

4318 Conifer Lane, Juneau, AK 99801

Name

Indirect holdings
Wild West Alaska, LLC

1925 Century Park East, 22nd Floor, Los Angeles CA 90067-90071

Name
Indirect holdings
Baking Show, LLC
Love American Journeys, LLC
Love Baking, LLC
Love Productions USA, Inc
Love Sewing, LLC
USA Love Development, LLC

1801 Century Park East, #2160, Los Angeles CA 90067

Name
Indirect holdings
ZJTV LLC (Membership interest (51%))

Incorporated in other overseas countries

Austria – Schönbrunner Straße 297/2 / A-1120 Wien

Name
Indirect holdings
Sky Österreich Fernsehen GmbH
Sky Österreich Verwaltung GmbH

Belgium – Boulevard Charlemagne 1, 1041 Brussels

Name
Indirect holdings
Sky Channel SA

Hong Kong – Level 54, Hopewell Centre, 183 Queen's Road East

Name
Indirect holdings
Sky Manufacturing Services Limited

Ireland – Fifth Floor, One Burlington Plaza, Burlington Road, Dublin 4

Name
Indirect holdings
Sky Ireland Limited

Switzerland – Stockerhof, Dreikönigstrasse 31A, CH8002 Zürich

Name
Indirect holdings
Sky International AG

(ii) Investments in joint ventures and associates

The movement in the year was as follows:

	2016 £m	2015 £m
Cost and funding		
Beginning of year	90	-
Subscription for shares	-	90
End of year	**90**	90
Amounts provided		
Beginning of year	-	-
End of year	**-**	-
Net book value		
Beginning of year	90	-
End of year	**90**	90

During the prior year, on 19 March 2015, the Company completed the sale of a controlling stake in the online betting and gaming business, Sky Betting & Gaming ("Sky Bet"), to funds advised by CVC Capital Partners and members of the Sky Bet management team. The Company has retained an equity stake of 20.06% post completion.

Details of the investments in joint ventures and associates are as follows:

Incorporated in England and Wales

Grant Way, Isleworth, Middlesex TW7 5QD

Name	Description and proportion of shares held (%)
Indirect holdings	
AETN UK	50.00%

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

Name	Description and proportion of shares held (%)
Indirect holdings	
Attheraces Holdings Limited	48.35%

15 Bedford Street, London WC2E 9HE

Name	Description and proportion of shares held (%)
Direct holdings	
Bolt Pro Term Limited	33.33%

Brook Green, House, 4 Rowan Road, London W6 7DU

Name	Description and proportion of shares held (%)
Indirect holdings	
Colossus Productions Limited	20.00%

2nd Floor, 27 Mortimer Street, London W1T 3JF

Name	Description and proportion of shares held (%)
Direct holdings	
DTV Services Limited	20.00%

6th Floor, One London Wall, London EC2Y 5EB

Name	Description and proportion of shares held (%)
Direct holdings	
Internet Matters Limited	25.00%

43 Eagle Street, London WC1R 4AT

Name	Description and proportion of shares held (%)
Indirect holdings	
Lovesport Productions Limited	49.99%

17-19 Hawley Crescent, Camden, London NW1 8TT

Name	Description and proportion of shares held (%)
Indirect holdings	
Nickelodeon UK Limited	40.00%
Paramount UK Partnership	25.00%

St Albans House, 57-59 Haymarket, London SW1Y 4QX

Name	Description and proportion of shares held (%)
Indirect holdings	
Odeon and Sky Filmworks Limited	50.00%

10-14 Accomodation Road, London NW11 8ED

Name	Description and proportion of shares held (%)
Indirect holdings	
Sugar Films Limited	24.90%

15 Canada Square, Canary Wharf, London E14 5GL

Name	Description and proportion of shares held (%)
Indirect holdings	
Venture 2009 Limited	50.00%

Incorporated in other overseas countries

Channel Islands – 1 Waverley Place, Union Street, St Helier, Jersey JE1 1SG

Name	Description and proportion of shares held (%)
Direct holdings	
Cyan Blue Topco Limited	20.06%

Australia – 5 Thomas Holt Drive, Macquarie Park, NSW, 2113

Name	Description and proportion of shares held (%)

Indirect holdings	
Australian News Channel Pty Limited	33.33%

USA – 874 Walker Rd, Suite C, Dover, DE 19904

Name	Description and proportion of shares held (%)
Indirect holdings	
Talos Films, LLC	Membership interest (25.00%)

UAE – P.O.Box 77845, Abu Dhabi

Name	Description and proportion of shares held (%)
Indirect holdings	
Sky News Arabia FZ-LLC	50.00%

13. Deferred tax

Recognised deferred tax (liability)/asset

	Accelerated tax depreciation	Short-term temporary differences	Share-based payments temporary differences	Financial instrument temporary differences	Total
	£m	£m	£m	£m	£m
At 1 July 2014	(17)	2	26	2	13
Credit (charge) to income	21	(2)	14	-	33
Credit to equity	-	-	15	(2)	13
At 30 June 2015	4	-	55	-	59
Credit (charge) to income	(7)	2	(13)	5	(13)
Credit (charge) to equity	-	-	(22)	(34)	(56)
At 30 June 2016	**(3)**	**2**	**20**	**(29)**	**(10)**

There are no unrecognised deferred tax liabilities (2015: nil). There is an unrecognised deferred tax asset of £1 million (2015: £1 million) in respect of tax trading losses and £27 million in respect of tax capital losses (2015: £30 million). There is currently insufficient evidence to support the recognition of a deferred tax asset relating to these losses.

Deferred tax assets have been recognised at 30 June 2015 on the basis that management deems it probable that there will be suitable taxable profits against which these assets can be utilised. 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% from 1 April 2017 and 18% from 1 April 2020 in the UK (2015: 20%).

The UK Government announced a reduction in the main rate of UK corporation tax to 17% from 1 April 2020. The reduction to 17% was not substantively enacted at the balance sheet date and has not therefore been reflected in the figures above. The impact of the future rate reduction will be accounted for to the extent that it is enacted at future balance sheet dates, however it is estimated that this will not have a material impact on the Company.

14. Inventories

	2016 £m	2015 £m
Television programme rights	**571**	513
Other inventories	**8**	1
Total inventory	**579**	514

15. Trade and other receivables

	Note	2016 £m	2015 £m
Gross trade receivables		**163**	134
Less: provision for impairment of receivables		**(62)**	(57)
Net trade receivables		**101**	77
Amounts receivable from other Group companies[(a)]		**10,131**	8,866
Amounts receivable from subsidiaries[(b)]		**313**	703
Amounts receivable from parent company[(c)]		**-**	56
Amounts receivable from joint ventures and associates		**12**	19
Amounts receivable from other related parties	27	**2**	8
Prepayments		**436**	387
Accrued income		**208**	188
Other receivables		**22**	10
Current trade and other receivables		**11,224**	10,314
Amounts receivable from joint ventures and associates		**77**	70
Non-current prepayments		**3**	2
Other receivables		**3**	-
Total non-current trade and other receivables		**83**	72
Total trade and other receivables		**11,307**	10,386

15. Trade and other receivables (other)

The ageing of the Company's net trade receivables past due not subject to impairment is as follows:

	2016	2015
	£m	£m
Up to thirty days past due date	**90**	73
Thirty to sixty days past due date	**6**	3
Sixty to ninety days past due date	**3**	1
Ninety to 120 days past due date	**-**	-
More than 120 days past due date	**2**	-
	101	77

Provisions for doubtful debts

	2016	2015
	£m	£m
Balance at beginning of year	**57**	68
Amounts utilised	**(25)**	(37)
Income statement charge	**30**	26
Balance at end of year	**62**	57

a) Amounts receivable from other Group companies

Amounts due from other Group companies as at 30 June 2016 are £10,131 million (2015: £8,866 million). £2,052 million (2015: £1,633 million) represent trade receivables, these are non-interest bearing and are repayable on demand. The balance of £8,079 million (2015: £7,233 million) are loans as detailed below:

On 15 September 2008, the Company entered into an agreement with Sky Holdings Limited ("SHL"). The loan is interest bearing at a rate of twelve month LIBOR plus 0.75% and is repayable on demand. On the 27 July 2011 the loan was converted into a revolving credit facility ("RCF") of up to £24 million. This facility is repayable on demand and is non-interest bearing. As at 30 June 2016 the balance of the loan was £22 million (2015: £22 million).

On 26 June 2009, the Company entered into a £380 million revolving credit facility ("RCF") agreement with Sky Operational Finance Limited (Sky Operational Finance Ltd). This facility is repayable on demand and is non-interest bearing. At 30 June 2016 the balance on this account was £371 million (2015: £371 million).

On 26 June 2009, the Company was assigned a £343 million receivable from Sky Operational Finance Ltd by Sky plc as settlement of its debt. As at 30 June 2016, the balance of this loan was £343 million (2015: £343 million). This loan is non-interest bearing and repayable on demand.

On 20 July 2011, the Company entered into a £900 million RCF agreement with Sky Operational Finance Ltd. This facility is repayable on demand and is non-interest bearing. At 30 June 2016 the balance on this account was £1,439 million (2015: £1,439 million).

15. Trade and other receivables (continued)

a) Amounts receivable from other Group companies (continued)

On 5 November 2014, the Company entered into an agreement with Sky Operational Finance Ltd for a loan amount of up to €800 million. The loan is interest bearing at a rate of EURIBOR plus 1% and is repayable on demand. At 30 June 2016 the balance on the account was £320million (2015: £100 million).

On 16 September 2014, the Company entered into various new loan agreements with Sky Operational Finance Ltd. These agreements are detailed below:

The Company entered into an agreement with Sky Operational Finance Ltd for a loan amount of €581 million. The loan is interest bearing at a rate of EURIBOR plus 0.6563% and is repayable on demand. At 30 June 2016 the balance on the account was £485 million (2015: £414 million).

The Company entered into an agreement with Sky Operational Finance Ltd for a loan amount of €969 million. The loan is interest bearing at a rate of 2.1867% and is repayable on demand. At 30 June 2016 the balance on the account was £813 million (2015: £694 million).

The Company entered into an agreement with Sky Operational Finance Ltd for a loan amount of €1,500 million. The loan is interest bearing at a rate of 1.5% and is repayable on demand. At 30 June 2016 the balance on the account was £1,265 million (2015: £1,080 million).

The Company entered into an agreement with Sky Operational Finance Ltd for a loan amount of €1,000 million. The loan is interest bearing at a rate of 2.5% and is repayable on demand. At 30 June 2016 the balance on the account was £850 million (2015: £725 million).

On 11 November 2014 the Company entered into an agreement with Sky Operational Finance Ltd for a loan amount of up to €125 million. The loan is interest bearing at a rate of 3 month EURIBOR plus 1% and is repayable on demand. At 30 June 2016 the balance on the account was £121 million (2015: £31 million).

On 24 November 2014, the Company entered into further loan agreements with Sky Operational Finance Ltd. These agreements are detailed below:

The Company was assigned a £405 million receivable from Sky Operational Finance Ltd. The loan is interest bearing at a rate of 6 month Sterling LIBOR plus 0.4% and is repayable on demand. At 30 June 2016 the balance on the account was nil. (2015: £245 million).

The Company entered into an agreement with Sky Operational Finance Ltd for a loan amount of €850 million. The loan is interest bearing at a rate of 1.875% and is repayable on demand. At 30 June 2016 the balance on the account was £716 million (2015: £611 million).

The Company entered into an agreement with Sky Operational Finance Ltd for a loan amount of €126 million. The loan is interest bearing at a rate of 2.94% and is repayable on demand. At 30 June 2016 the balance on the account was £105 million (2015: £90 million).

On 27 November 2014, the Company entered into further loan agreements with Sky Operational Finance Ltd. These agreements are detailed below:

15. Trade and other receivables (continued)

a) Amounts receivable from other Group companies (continued)

The Company entered into an agreement with Sky Operational Finance Ltd for a loan amount of €400 million. The loan is interest bearing at a rate of 2.75% and is repayable on demand. At 30 June 2016 the balance on the account was £339 million (2015: £289 million).

On 20 February 2015 the Company entered into a facility loan agreement with Sky Finance Europe Limited for an amount of up to €365 million. At 30 June 2016 the balance on the account was £304 million (2015: £261 million).

The Company has entered into other RCFs and loans with other Group companies amounting to £586 million (2015: £518 million), all are non-interest bearing and repayable on demand.

Within the Company there is a concentration of risk within accounts receivable from other Group companies. No allowance has been recorded against amounts receivable from other Group companies (2015: no allowance) as the Company has assessed that all Group companies with which it holds debt have sufficient funds to repay the debt.

b) Amounts receivable from subsidiaries

Amounts due from subsidiaries as at 30 June 2016 are £313 million (2015: £703 million). £297 million (2015: £687 million) represent trade receivables, these balances are non-interest bearing and are repayable on demand.

£16 million (2015: £16 million) is made up of a £4 million non-interest bearing loan to Sky Ventures Limited that is repayable on demand (2015: £4 million). In addition on 17 October 2011 the Company entered into a £60 million RCF agreement with Sky Ventures Limited. This facility is repayable on demand and is non-interest bearing. At 30 June 2016, the balance on this account was £12 million (2015: £12 million).

c) Amounts receivable from parent company

Amounts due from the parent company as at 30 June 2016 are nil (2015: £56 million). Amounts due from the parent company in the prior year represents trade receivables; these are non-interest bearing and are repayable on demand.

The Company is exposed to credit risk on its trade and other receivables. The Company does not have any significant concentrations of credit risk with third parties, as the exposure is spread over a large number of counterparties and customers.

16. Trade and other payables

	Note	2016	2015
		£m	£m
Trade payables		**942**	812
Amounts payable to the parent Company[(a)]		**1,703**	1,736
Amounts payable to other Group companies[(c)]		**12,585**	11,241
Amounts payable to subsidiaries[(b)]		**1,609**	1,727
Amounts owed to joint ventures and associates		**14**	16
Amounts owed to other related parties	27	**101**	107
VAT		**262**	172
Accruals		**583**	470
Deferred income		**368**	331
Deferred consideration		**-**	2
Other payables		**48**	63
		18,215	16,677

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 on-going costs.

a) Amounts payable to the parent company

In July 1999, Sky issued US $650 million of guaranteed notes and Sky plc loaned the proceeds to the Company. The Company is liable to the 8.200% external interest payments on the notes. The Company also pays the same rate of interest to Sky plc. As at 30 June 2016 the total of the loan was £45 million (2015: £43 million).

On 4 June 2007, the Company entered into a £694 million loan agreement with a fellow subsidiary undertaking, BSkyB Finance (Luxembourg) s.a.r.l. The loan was repayable on demand and incurred interest at a rate of six month LIBOR plus 0.75%, compounded at 30 June and 31 December each year. On 5 March 2009, BSkyB Finance (Luxembourg) s.a.r.l was placed into liquidation at which point the loan was transferred to the sole shareholder, Sky plc. The terms and conditions remain unchanged. As at 30 June 2016 the total of the loan plus interest was nil (2015: nil).

On 4 April 2008, the Company entered into a loan agreement with Sky Operational Finance Ltd. At the same time Sky Operational Finance Ltd entered into an agreement with Sky Broadband SA. These loans were in relation to the settlement of recharges during the month. The loan is repayable on demand and interest is payable at one month LIBOR plus 0.75%. On 13 January 2009 Sky Operational Finance Ltd assigned £250 million of this loan along with a further £2 million to Sky plc. Under the terms of the new loan interest is payable at six month LIBOR plus 1.00%. It is repayable on demand. The balance remaining on the original loan plus interest with Sky Operational Finance Ltd at 30 June 2009 was £425 million and the balance on the loan amount transferred to Sky plc plus interest at 30 June 2016 was nil (2015: nil).

On 29 June 2008, the Company also entered into two further loan agreements payable to Sky plc; £143 million and £109 million, both bearing interest at a rate of 1 month LIBOR plus 0.75%. These loans are repayable on demand. As at 30 June 2016 the total of the loan plus interest was nil (2015: nil).

The Company also has trade payable balances with Sky Group plc of £1,658 million (2015: £1,693 million), these balances are non-interest bearing and are repayable on demand.

16. Trade and other payables (continued)

b) Amounts payable to subsidiaries

All amounts are trade payables; these balances are non-interest bearing and are repayable on demand.

c) Amounts payable to other Group companies

There are amounts due to other Group companies totalling £12,585 million (2015: £11,241 million) of which £1,440 million (2015: £1,266 million) are trade payables; these balances are non-interest bearing and are repayable on demand. There are £11,145 million (2015: £9,975 million) of intercompany RCFs and loans, of which £417 million (2015: £417 million) is non-interest bearing. All loans are repayable on demand.

On 8 February 2010, the Company entered into a loan agreement with Sky Operational Finance Ltd for €6.5 million bearing interest at a fixed rate of 4%. As at 30 June 2016 the balance of the loan plus interest was nil (2015: nil).

On 16 October 2009, the Company entered into a loan agreement with Sky Group Finance plc for £611 million. Under the terms of the loan agreement interest is payable at one month LIBOR plus 2.00%. As at 30 June 2016 the balance of the loan plus interest was £724 million (2015: £706 million).

In November 2008, Sky issued a further US$600 million of guaranteed notes, Sky loaned the bond proceeds to Sky Operational Finance Ltd which then loaned them on to the Company. Under the terms of this loan agreement the Company is liable to the 9.500% external interest payments on these bonds. The loan is repayable on demand. As at 30 June 2016, the total of the loan plus interest was £659 million (2015: £619 million).

On 15 September 2008, the Company entered into a £150 million RCF agreement with Sky Operational Finance Ltd and another with Sky Holdings Limited ("SHL"). At the same time the Company entered into reciprocal facilities on the same terms with Sky Group Finance plc. The facilities are repayable on demand and bear interest at a rate of twelve month LIBOR plus 1.00%. As at 30 June 2016 the cumulative balance of these loans plus interest was £97 million (2015: £95 million).

On 11 April 2008, the Company entered into a £500 million RCF agreement with Sky Operational Finance Ltd. The facilities are repayable on demand and bear interest at a rate of one month LIBOR plus 0.75%. As at 30 June 2016 the balance of the loans plus interest was nil (2015: nil).

On 3 June 2013, the Company entered into a £503 million RCF agreement with Sky Operational Finance Limited. The facilities are repayable on demand and bear interest at a rate of 3.226%. As at 30 June 2016 the balance of this loan plus interest was £565 million (2015: £547 million).

On 24 July 2014, the Company entered into an agreement with Sky Operational Finance Ltd for a loan amount of £541 million. The loan is non-interest bearing and repayable on demand. As at 30 June 2016 the balance of this loan was £538 million (2015: £538 million).

On 30 July 2014, the Company entered into an agreement with Sky Operational Finance Ltd for a loan amount of £1,346 million. The loan is non-interest bearing and repayable on demand. As at 30 June 2016 the balance of this loan was £1,346 million (2015: £1,346 million).

16. Trade and other payables (continued)

c) Amounts payable to other Group companies (continued)

On 15 September 2014, the Company entered into an agreement with Sky Operational Finance Ltd for a loan amount of €1,500 million. The loan is repayable on demand and bears interest at a rate of 1.5%. As at 30 June 2016 the balance of this loan plus interest was £1,265 million (2015: £1,080 million).

On 15 September 2014, the Company entered into an agreement with Sky Operational Finance Ltd for a loan amount of €1,000 million. The loan is repayable on demand and bears interest at a rate of 2.5%. As at 30 June 2016 the balance of this loan plus interest was £850 million (2015: £725 million).

On 16 September 2014, the Company entered into an agreement with Sky Operational Finance Ltd for a loan amount of €581 million. The loan is repayable on demand and bears interest at a rate of EURIBOR and 0.6563%. As at 30 June 2016 the balance of this loan plus interest was £485 million (2015: £414 million).

On 16 September 2014, the Company entered into an agreement with Sky Operational Finance Ltd for a loan amount of €969 million. The loan is repayable on demand and bears interest at a rate of 2.1867%. As at 30 June 2016 the balance of this loan plus interest was £813 million (2015: £694 million).

On 12 November 2014, the Company entered into an agreement with Sky Operational Finance Ltd for a loan amount of up to €200 million. The loan is repayable on demand and bears interest at a rate of 3 month EURIBOR. As at 30 June 2016 the balance of this loan plus interest was £186 million (2015: £211 million).

On 24 November 2014, the Company entered into an agreement with Sky Operational Finance Ltd for a loan amount of €450 million. The loan is repayable on demand and bears interest at LIBOR plus 1.2296%. As at 30 June 2016 the balance of this loan plus interest was £451 million (2015: £451 million).

On 24 November 2014, the Company entered into an agreement with Sky Operational Finance Ltd for a loan amount of £200 million. The loan is repayable on demand and bears interest at 4%. As at 30 June 2016 the balance of the loan plus interest was £205 million (2015: £205 million).

On 27 November 2014, the Company entered into an agreement with Sky Operational Finance Ltd for a loan amount of €400 million. The loan is repayable on demand and bears interest at 2.75%. As at 30 June 2016 the balance of the loan plus interest was £339 million (2015: £289 million).

On 27 November 2014, the Company entered into an agreement with Sky Operational Finance Ltd for a loan amount of €850 million. The loan is repayable on demand and bears interest at 1.875%. As at 30 June 2016 the balance of the loan plus interest was £716 million (2015: £611 million).

On 27 November 2014, the Company entered into an agreement with Sky Operational Finance Ltd for a loan amount of €126 million. The loan is repayable on demand and bears interest at 2.94%. As at 30 June 2016 the balance of the loan plus interest was £105 million (2015: £90 million).

16. Trade and other payables (continued)

c) Amounts payable to other Group companies (continued)

On 27 November 2014, the Company entered into an agreement with Sky Operational Finance Ltd for a loan amount of £408 million. The loan is repayable on demand and bears interest at 6 month LIBOR. As at 30 June 2016 the balance of the loan plus interest was £408 million (2015: £408 million).

On 26 February 2015, the Company entered into an agreement with Sky Operational Finance Ltd for a loan amount of up to €140 million. The loan is non-interest bearing and repayable on demand. As at 30 June 2016 the balance of the loan was £116 million (2015: £99 million).

On 1 April 2015, the Company entered into an agreement with Sky Operational Finance Ltd for a loan amount of €600 million. The loan is repayable on demand and bears interest at 3 month EURIBOR plus 0.75%. As at 30 June 2016 the balance of the loan was £500 million (2015: £428 million).

On 17 November 2015, the Company entered into an agreement with Sky Operational Finance Ltd for a loan amount of £356 million. The loan is repayable on demand and bears interest at 3.72% per annum. As at 30 June 2016 the balance of the loan was £358 million.

The Company has entered into other loans with other Group companies amounting to £2 million (2015: nil).

17. Provisions

	At 1 July 2014 £m	Provided during the year £m	Utilised during the year £m	At 30 June 2015 £m	**Reclassified during the year £m**	**Provided during the year £m**	**Utilised during the year £m**	**At 30 June 2016 £m**
Current liabilities								
Restructuring provision(i)	19	16	(21)	14	**-**	**29**	**(14)**	**29**
Property provisions (ii)	3	3	-	6	**11**	**5**	**(2)**	**20**
Other	-	13	-	13	**-**	**2**	**(6)**	**9**
	22	32	(21)	33	**11**	**36**	**(22)**	**58**
Non-current liabilities								
Property provisions	-	17	-	17	**(11)**	**3**	**(2)**	**7**
Other	7	2	-	9	**-**	**11**	**(9)**	**11**
	7	19	-	26	**(11)**	**14**	**(11)**	**18**

(i) During the year ended 30 June 2015, the Company provided £16 million for the expected costs of a restructuring exercise undertaken. During the year end 30 June 2016, as part of a separate restructuring exercise the Company provided a further £29m for the expected costs.

(ii) The Company has provided amounts for onerous contracts for property leases, maintenance and legal disputes. The timing of the cash flows for onerous property leases and maintenance are dependent on the terms of the remaining leases. The timing of the cash flows for legal disputes cannot be reasonably determined.

18. Non-current trade and other payables

	2016	2015
	£m	£m
Non-current trade and other payables		
Other payables	**47**	45
Amounts owed to other related parties	**1**	5
	48	50

19. Borrowings

	2016	2015
	£m	£m
Current borrowings		
Borrowings	**6**	4
Obligations under finance leases	**-**	3
	6	7
Non-current borrowings		
Obligations under finance leases	**-**	-
Other non-current borrowings	**1**	2
	1	2

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

	2016	2015
	£m	£m
Within one year	**-**	3
Between one and two years	**-**	-
	-	3
Future finance charges on finance lease liabilities	**-**	-
Present value of finance lease liabilities	**-**	3

In the prior year, the obligations under finance leases are in relation to datacentre equipment. During the prior year the repayments of £3 million were made against the lease. A proportion of these payments have been allocated against the capital amount outstanding. The lease bears interest at a rate of 3.6% and expired in June 2016.

20. Derivatives and other financial instruments

	2016				2015			
	Asset		**Liabilities**		Asset		Liabilities	
	Fair value £m	**Notional £m**	**Fair value £m**	**Notional £m**	Fair value £m	Notional £m	Fair value £m	Notional £m
Fair Value Hedges								
Cross-currency Swaps	**-**	**-**	**(182)**	**1,003**	4	503	(2)	611
Cash flow hedges:								
Forward exchange contracts	**188**	**1,453**	**-**	**3**	24	672	(21)	488
Derivatives not in a formal hedge relationship:								
Forward exchange contracts	**220**	**3,583**	**(214)**	**3,468**	48	1,734	(54)	2,030
Cross-currency swaps	**428**	**2,994**	**(430)**	**2,994**	183	2,584	(181)	2,584
Interest rate swaps	**30**	**450**	**(30)**	**450**	4	450	(4)	450
Embedded Derivative	**-**	**-**	**(8)**	**86**	-	-	-	-
Total	**866**	**8,480**	**(864)**	**8,004**	263	5,943	(262)	6,163

The maturity of the derivative financial instruments is as follows:

	2016		2015	
	Asset	**Liability**	Asset	Liability
	£m	**£m**	£m	£m
In one year or less	**187**	**(123)**	32	(39)
Between one and two years	**102**	**(56)**	17	(15)
Between two and five years	**291**	**(215)**	89	(87)
More than five years	**286**	**(470)**	125	(121)
Total	**866**	**(864)**	263	(262)

20. Derivatives and other financial instruments (continued)

The Company's portfolio of rate derivatives is diversified by maturity, counterparty and type. Natural offsets between transactions within the portfolio and the designation of certain derivatives as hedges significantly reduce the risk of income statement volatility.

At 30 June 2016, the carrying value of financial assets that were, upon initial recognition, designated as financial assets at fair value through profit or loss was nil (2015: nil).

Counterparty exposure from all derivatives is managed within credit limits that ensure that there is no significant risk to any one counterparty. In addition to this deals are only executed with counterparties that have a long-term rating of "BBB" or better.

The Group's treasury function is responsible for raising finance for the Group's operations, together with associated liquidity management, and the management of foreign exchange, interest rate and credit risks. Treasury operations are conducted within a framework of policies and guidelines authorised and reviewed 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 that no speculative trading in financial instruments 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.

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 from 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 forward exchange contracts to hedge transactional and translational currency exposures.

Hedge accounting classification and impact

The Company designates its 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 recycled to the income statement in the same period as the hedged item is recognised. If forecast transactions are no longer expected to occur, any amounts included in the hedging reserve related to that forecast transaction would be recognised directly in the income statement. During the current year gains of £16 million were removed from the hedging reserve and credited to operating expense in the income statement (2015: losses of £6 million). Gains of £29 million were removed from the hedging reserve and credited against revenue in the income statement (2015: gains of £10 million).

During the prior year, gains of £48 million were removed from the hedging reserve and credited against investment income as a result of the de-designation of Irish subscriber revenue hedges following the transfer of these revenues to Sky Subscriber Services Limited.

20. Derivatives and other financial instruments (continued)

(a) Carrying value and fair value

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

	Held to maturity investments	Available-for-sale investments	Derivatives deemed held for trading	Derivatives in hedging relationship	Loans and receivables	Other liabilities	Total carrying value	Total fair values
	£m	£m	£m	£m	£m	£m	£m	£m
At 30 June 2016								
Derivative financial instruments	**-**	**-**	**(4)**	**6**	**-**	**-**	**2**	**2**
Trade and other payables	**-**	**-**	**-**	**-**	**-**	**(17,576)**	**(17,576)**	**(17,576)**
Provisions	**-**	**-**	**-**	**-**	**-**	**(32)**	**(32)**	**(32)**
Available-for-sale investments	**-**	**1**	**-**	**-**	**-**	**-**	**1**	**1**
Trade and other receivables	**-**	**-**	**-**	**-**	**10,848**	**-**	**10,848**	**10,848**
Short-term deposits	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Cash and cash equivalents	**825**	**-**	**-**	**-**	**1,269**	**-**	**2,094**	**2,094**
Other Borrowings	**-**	**-**	**-**	**-**	**-**	**(7)**	**(7)**	**(7)**
At 30 June 2015								
Derivative financial instruments	-	-	(4)	5	-	-	1	1
Trade and other payables	-	-	-	-	-	(16,162)	(16,162)	(16,162)
Provisions	-	-	-	-	-	(26)	(26)	(26)
Available-for-sale	-	4	-	-	-	-	4	4
Trade and other receivables	-	-	-	-	9,992	-	9,992	9,992
Short-term deposits	1,100	-	-	-	-	-	1,100	1,100
Cash and cash equivalents	50	-	-	-	1,269	-	1,319	1,319

Other Borrowings	-	-	-	-	-	(5)	(5)	(5)

20. Derivatives and other financial instruments (continued)

(a) Carrying value and fair value (continued)

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

• The fair value of financial assets and financial liabilities with standard terms and conditions and which are traded on active liquid markets is determined with reference to quoted market prices;

• The fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments;

• Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts;

• The fair value of obligations under finance leases and other borrowings is estimated by discounting the future cash flows to net present value. The fair value of short-term deposits and cash and cash equivalents is equivalent to carrying value due to the short-term nature of these instruments.

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

Cash and cash equivalents classified as held to maturity investments comprise money market deposits which have maturity dates of less than three months from inception. Money market deposits 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 AAA rated money market funds which can be withdrawn without notice.

20. Derivatives and other financial instruments (continued)

(b) Fair value hierarchy

The following table categorises the Company'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	Level 1	Level 2	Level 3
	£m	£m	£m	£m
At 30 June 2016				
Financial assets				
Available-for-sale financial instruments	1	-	-	1
Interest rate swaps	30	-	30	-
Cross currency swaps	428	-	428	-
Forward foreign exchange and option contracts	408	-	408	-
Total	**867**	**-**	**866**	**1**
Financial liabilities				
Interest rate swaps	(30)	-	(30)	-
Cross currency swaps	(612)	-	(612)	-
Forward foreign exchange and option contracts	(214)	-	(214)	-
Embedded Derivative	(8)	-	(8)	-
Total	**(864)**	**-**	**(864)**	**-**
At 30 June 2015				
Financial assets				
Available-for-sale financial instruments	4	3	-	1
Interest rate swaps	4	-	4	-
Cross currency swaps	187	-	187	-
Forward foreign exchange and option contracts	72	-	72	-
Total	**267**	**3**	**263**	**1**
Financial liabilities				
Interest rate swaps	(4)	-	(4)	-
Cross currency swaps	(183)	-	(183)	-
Forward foreign exchange contracts	(75)	-	(75)	-
Total	**(262)**	**-**	**(262)**	**-**

Level 1

Fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2

Fair values measured using inputs, other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Derivative financial instrument fair values are present values determined from future cash flows discounted at rates derived from market source data.

Level 3

Fair values measured using inputs for the asset or liability that are not based on observable market data.

20. Derivatives and other financial instruments (continued)

(b) Fair value hierarchy (continued)

The Company's available-for-sale investment in Johnston Press is carried at fair value and constitutes a Level 1 financial instrument in the fair value hierarchy. The Company's other available-for-sale financial assets are held at fair value and are categorised as Level 3 in the fair value hierarchy.

21. Financial risk management objectives and policies

The Group's Treasury function is responsible for raising finance for the Company'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 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.

Capital Risk Management

The capital structure of the Company consists of equity attributable to equity holders of the parent company, comprising issued capital, reserves and retained earnings.

Risk and treasury management is governed by Sky plc's policies approved by its Board of Directors.

Liquidity risk

The Company's financial liabilities are shown in note 16, 17 and 18.

The following table analyses the Company's non-derivative financial liabilities 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. These amounts may not reconcile to the amounts disclosed on the balance sheet for provisions and trade and other payables.

21. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

	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 2016				
Non-derivative financial liabilities				
Trade and other payables	**17,432**	**132**	**7**	**5**
Provisions	**21**	**11**	**-**	**-**
Gross settled derivatives				
Outflow	**4,052**	**2,085**	**4,876**	**6,459**
Inflow	**(4,125)**	**(2,141)**	**(4,990)**	**(6,339)**
At 30 June 2015				
Non-derivative financial liabilities				
Trade and other payables	16,046	105	6	5
Provisions	18	8	-	-
Gross settled derivatives				
Outflow	2,133	1,321	4,042	4,886
Inflow	(2,138)	(1,334)	(4,078)	(4,971)

Credit risk

The Company is exposed to default risk amounting to invested cash and cash equivalents and short-term deposits, and the positive fair value of derivative financial assets held. However, this risk is deemed to be low. Counterparty risk forms a central part of the Company's treasury policy, which is monitored and reported on regularly. The Company manages credit risk by diversifying its exposures across a wide number of counterparties, such that the maximum exposure to any individual counterparty was 7% (2015: 6%) of the total asset value of instruments at the end of the year. Treasury policies ensure that all derivative transactions are only effected with strong relationship banks and at the date of signing each carried a minimum credit rating of "Baa2" or equivalent from Standard and Poor's.

Credit risk in the Company's residential customer base is mitigated by billing and collecting in advance for digital television subscriptions for the majority of its residential customer base.

The Company's maximum exposure to credit risk on trade receivables is the carrying amounts as disclosed in note 15.

Notes to the financial statements

21. Financial risk management objectives and policies (continued)

Interest rate risk

The Company has financial exposure to UK and European interest rates arising from the investment of surplus cash, interest rate derivatives transacted on behalf of the Group and various loan balances with other companies within the Sky Group. The Group's Treasury function monitors the Company's exposure to fluctuations in interest rates.

Interest rate sensitivity

The sensitivity analysis below has been determined based on the exposure to interest rates for 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.

A one percentage point increase or decrease represents management's assessment of the reasonably possible change in interest rates. If interest rates had been one percentage point higher and all other variables were held constant, the Company's profit for the year ended 30 June 2016 would increase by £26 million (2015: profit for the year would increase by £10 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 Company's actual exposure to market rates changes as the Company'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 Company. 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

The Company's revenues are substantially denominated in pounds sterling, although a significant proportion of operating costs are denominated in US dollars. These costs relate mainly to the Company's programming contracts with US suppliers.

The Group hedges currency exposures on US dollar denominated highly probable cash flows by using forward exchange contracts purchased up to five years ahead of the cash flow and currently no longer hedges 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 2016, the Group had purchased forward foreign exchange contracts representing:

Approximately 99% (2015: 99%) of US dollar denominated costs falling due within one year and, on a declining basis across a five year planning horizon are hedged via:

Notes to the financial statements

21. Financial risk management objectives and policies (continued)

Foreign exchange risk (continued)

-Outstanding commitments to purchase, in aggregate, $3,608 million (2015: $2,611 million) at an average exchange rate of £1 to $1.53 (2015: £1 to $1.58), of which $1,510 million was purchased on behalf of other group companies.
-Outstanding commitments to sell, in aggregate, $1,558 million (2015: $757 million) at an average exchange rate of £1 to $1.52 (2015: £1 to $1.58), of which $1,510 million was sold to other group companies.
-Outstanding commitments to purchase, in aggregate, $2,126 million (2015: $1,755 million) at an average exchange rate of €1 to $1.16 (2015: £1 to €1.17), all of which was purchased on behalf of other group companies.
-Outstanding commitments to sell, in aggregate, $2,126 million (2015: $1,755 million) at an average exchange rate of £1 to €1.16 (2015: £1 to €1.17).

In respect of its legacy euro hedging programme and to hedge current Balance Sheet exposures:
-Outstanding commitments to sell, in aggregate, €802 million (2015: €252 million) at an average rate of £1.00 to €1.27 (2015: £1.00 to €1.37).
-Outstanding commitments to purchase, in aggregate, €750 million (2015: €531 million) at an average rate of £1.00 to €1.37 (2015: £1.00 to €1.37).
- Outstanding commitments to purchase, in aggregate, £66 million (2015: nil) at an average rate of £0.79 to €1.00 (2015: nil), all of which was purchased on behalf of other group companies.
- Outstanding commitments to sell, in aggregate, £66 million (2015: nil) at an average rate of £0.79 to €1.00 (2015 nil).

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 transferred to the income statement as the forecast transactions affect the income statement (i.e. when Euro or US dollar-denominated trade payables are retranslated and related programming inventory or prepayment are amortised through the income statement).

For forward exchange contracts, hedge accounting is applied to changes in the full fair value. Any hedge ineffectiveness on the forward exchange contracts is recognised directly in the income statement. The ongoing effectiveness testing is performed using the dollar-offset approach. 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. Certain forward exchange contracts have not been designated as hedges and movements in their values continue to be recorded directly in the income statement.

It is the Company's policy that anticipated USD foreign currency exposures are substantially hedged in advance of the fiscal year in which the exposure occurs.

Foreign exchange sensitivity

The following analysis details the Company's sensitivity to movements in pounds sterling and 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 Dollar would have a beneficial impact on profit of £3 million (2015: beneficial impact of £3 million). The same move would have an adverse impact on other equity of £254 million (2015: adverse impact of £201 million).

21. Financial risk management objectives and policies (continued)

Foreign exchange sensitivity (continued)

- A 25% weakening in pounds sterling against the Dollar would have an adverse impact on profit of £5 million (2015: adverse impact of £5 million). The same move would have a beneficial impact on other equity of £424 million (2015: beneficial impact of £336 million).
- A 25% strengthening in pounds sterling against the Euro would have a beneficial impact on profit of £64 million (2015: adverse impact of £27 million). The same move would have a beneficial impact on other equity of £85 million (2015: beneficial impact of £102 million).
- A 25% weakening in pounds sterling against the Euro would have an adverse impact on profit of £106 million (2015: beneficial impact of £45 million). The same move would have an adverse impact on other equity of £142 million (2015: adverse impact of £170 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 Company's actual exposure to market rates is constantly changing as the Company's portfolio of foreign currency and equity 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 Company. 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.

Additional information

At 30 June 2016, the carrying value of financial assets that were, upon initial recognition, designated as financial assets at fair value through profit or loss, was nil (2015: nil).

Cash and cash equivalents include £825 million (2015: £50 million) of held to maturity investments, which have maturity dates of less than three months from inception.

22. Share capital

	2016 **£m**	2015 £m
Allotted, called-up and fully paid		
10,002,002 (2015: 10,002,002) ordinary shares of £1 each	**10**	10

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

22. Share capital (continued)

Share option and contingent share award schemes

The Company operates various equity-settled share option schemes (the "Schemes") for certain employees, using shares in the Company's ultimate parent company, Sky plc.

The awards outstanding can be summarised as follows:

Scheme	**2016 Number of ordinary shares**	2015 Number of ordinary shares
Sharesave Scheme options(i)	**4,844,567**	5,081,331
Management LTIP awards(ii)	**16,768,586**	25,300,261
LTIP awards(iii)	**6,485,425**	8,595,963
Management Co-Investment LTIP awards(iv)	**1,984,218**	1,929,564
Co-Investment LTIP awards(v)	**1,739,882**	1,768,738
	31,822,678	42,675,857

(i) Sharesave Scheme options

All Sharesave Scheme options outstanding at 30 June 2016 and 30 June 2015 have no performance criteria attached, other than the requirement that the employee remains in employment with the Company. Options granted under the Sharesave Scheme must be exercised within six months of the relevant award vesting date.

The Sharesave Scheme is open to all employees in the UK and Ireland. Options are normally exercisable after either three or five years from the date of grant. The price at which options are offered is not less than 80% of the middle-market price on the dealing day immediately preceding the date of invitation. It is the policy of the Company 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 2016 and 30 June 2015 vest only if performance conditions are met. Awards granted under the Management LTIP must be exercised within five years of the relevant award vesting date.

(iii) Management LTIP awards (continued)

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

(iv) LTIP awards

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

The Company operates the LTIP for Executive Directors and Senior Executives. Awards under the scheme are granted in the form of a nil-priced option. The awards vest in full or in part dependent on the satisfaction of

22. Share capital (continued)

Share option and contingent share award schemes (continued)

(iv) LTIP awards (continued)

specified performance targets. 30% of the award vested dependent on TSR performance of Sky plc over a three year performance period, relative to the constituents of the FTSE 100 at the time of grant, and the remaining 70% vested dependent on performance against operational targets. The TSR performance targets were not applicable to awards made between July 2010 and March 2012 but have been re-introduced for awards granted from July 2012 onwards.

(v) Management Co-Investment LTIP awards

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

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

(vi) Co-Investment LTIP awards

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

The Company operates the Co-Investment LTIP award for Executive Directors and Senior Executives. Employees who participate in the plan are granted a conditional award of shares based on the amount they have invested in Sky plc 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.

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

	2016 Number of shares under option	**2016 Weighted average exercise price**	2015 Number of shares under option	2015 Weighted average exercise price
Outstanding at 1 July	**42,675,857**	**£0.77**	30,186,175	£1.02
Granted during the year	**11,989,161**	**£1.08**	17,532,442	£0.77
Exercised during the year	**(20,065,510)**	**£0.36**	(3,146,011)	£2.05
Forfeited during the year	**(2,175,320)**	**£2.02**	(1,881,437)	£2.55
Expired during the year	**(601,510)**	**£0.17**	(15,312)	£5.33
Outstanding at 30 June	**31,822,678**	**£1.07**	42,675,857	£0.77

The weighted average market price of Sky plc's shares at the date of exercise for share options exercised during the year was £11.35 (2015: £9.09).

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

22. Share capital (continued)

Share option and contingent share award schemes (continued)

	Awards Outstanding			
Range of Exercise Prices	**2016 Number**	**2016 Weighted average remaining contractual life**	2015 Number	2015 Weighted average remaining contractual life
£0.00 - £1.00	**26,978,111**	**6.00**	37,594,526	5.92
£3.00 - £4.00	**-**	**-**	-	-
£4.00 - £5.00	**-**	**-**	4,843	0.09
£5.00 - £6.00	**586,060**	**1.02**	1,020,534	1.68
£6.00 - £7.00	**1,420,881**	**1.50**	2,276,797	2.12
£7.00 - £8.00	**1,414,871**	**2.46**	1,779,157	3.45
£8.00-£9.00	**1,422,755**	**3.38**	-	-
	31,822,678	**5.43**	42,675,857	5.51

The exercise prices of options outstanding at 30 June 2016 ranged from nil to £8.17 (2015: nil to £7.08).

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 £7.97 (2015: £5.96). 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 Sky plc'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 Sky's share price and those of all other companies to which Sky's performance would be compared, over a period equal to the vesting period of the awards.

Weighted average fair value assumptions

Expected volatility was determined by calculating the historical volatility of Sky's share price, over a period equal to the expected life of the options. Expected life was based on the contractual life of the options and adjusted, based on management's best estimate, for the effects of exercise restrictions and behavioural considerations.
The following weighted average assumptions were used in calculating these fair values:

	2016	2015
Share price	**£10.97**	£8.81
Exercise price	**£1.89**	£1.21
Expected volatility	**18.2%**	19.6%
Expected life	**2.5 years**	3.1 years
Expected dividend	**3.3%**	3.5%
Risk-free interest rate	**1.0%**	1.5%

23. Shareholder's equity

	2016 £m	2015 £m
Share capital	**10**	10
Hedging reserve	**141**	-
Available-for-sale reserve	**(1)**	(2)
Retained earnings	**1,591**	2,114
	1,741	2,122

For the year ended 30 June 2016 there was a £671 million distribution made to Sky (2015: £509 million). The distribution was settled by the assignment of intercompany debt within the Sky Group.

Hedging reserve

Changes in the fair values of derivatives that are designated as cash flow hedges are initially recognised in the hedging reserve, and subsequently recognised in the income statement when the related hedged items are recognised in the income statement. In addition, deferred tax relating to these derivatives is also initially recognised in the hedging reserve prior to transfer to the income statement.

Notes to the financial statements

24. Notes to the Cash Flow Statement

Reconciliation of profit before tax to cash generated from operations	2016	2015
Profit before tax	**172**	1,406
Depreciation and impairment of property, plant and equipment	**81**	100
Impairment of investment in subsidiaries	**1**	25
Amortisation and impairment of intangible assets	**51**	103
Impairment of available-for-sale investment	**4**	4
Share-based payment expense	**86**	90
Net finance costs	**90**	38
Profit on disposal of investment	**-**	(766)
	485	1,000
Increase in trade and other receivables	**(740)**	(533)
Increase in inventories	**(65)**	(25)
Increase in trade and other payables	**1,231**	2,365
Increase in provisions	**17**	30
Increase in derivative financial assets	**2**	31
Cash generated from operations	**930**	2,868

During the prior year, as part of a Group reorganisation, assets of the Company amounting to a net book value of £465 million were transferred out of SSSL and Sky CP Limited. No cash was transferred as part of this transaction.

Notes to the financial statements

25. Operating lease commitments

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

	2016	2015
	£m	£m
Within one year	**18**	22
Between one and two years	**13**	17
Between two and three years	**10**	10
Between three and four years	**9**	9
Between four and five years	**5**	2
After five years	**33**	9
	88	69

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:

	2016	2015
	£m	£m
Within one year	**-**	-
Between one and two years	**-**	-
Between two and three years	**-**	-
Between three and four years	**-**	-
Between four and five years	**-**	-
After five years	**-**	-
	-	-

Sub-lease rentals relate to property leases.

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 2016 £m	Total at 30 June 2015 £m
Television programme rights	2,553	5,894	859	**9,306**	7,865
Third party payments(i)	54	67	-	**121**	102
Transponder capacity(i)	77	258	96	**431**	379
Property, plant and equipment	3	-	-	**3**	76
Intangible asset	24	10	-	**34**	3
Other	237	129	3	**369**	422
				10,264	8,847

(i) The third party payment commitments are in respect of distribution agreements for the television channels owned and broadcast by third parties, retailed by the Group to retail and commercial subscribers ("Sky Distributed Channels").

(ii) Transponder capacity commitments are in respect of the SES satellites that the Group uses for digital transmissions to both retail subscribers and cable operators.

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

b) Contingencies and guarantees

The Company, together with Sky Subscribers Services Limited, Sky Group Finance plc and Sky Telecommunications Services Limited has given joint and several guarantees in relation to the £1 billion Revolving Credit Facility held by its parent undertaking, Sky plc.

The Company, together with SSSL, Sky Group Finance plc, Sky CP Limited and Sky Telecommunications Services Limited has given joint and several guarantees in relation to the issue in the public debt market of US$582.8 million of 9.500% Guaranteed Notes repayable in November 2018, US$750 million of 6.100% Guaranteed Notes repayable in February 2018 and £300 million of 6.000% Guaranteed Notes repayable in May 2027, US$800 million of 3.125% Guaranteed Notes repayable in November 2022 and issued by its parent undertaking, Sky plc.

The Company, together with Sky Subscribers Services Limited, Sky plc, Sky CP Limited and Sky Telecommunications Services Limited has given joint and several guarantees in relation to the issue in the public debt market of US$750 million of 5.625%

26. Contracted commitments, contingencies and guarantees (continued)

b) Contingencies and guarantees (continued)

Guaranteed Notes repayable in October 2015, £400 million of 5.750% Guaranteed Notes repayable in October 2017 and US$350 million of 6.500% Guaranteed Notes repayable in October 2035 and issued by Sky Group Finance plc.

27. Transactions with related parties

a) Major shareholders of Sky plc

The Company conducts business transactions with companies that form part of the Twenty-First Century Fox, Inc group, a major shareholder of Sky plc, the ultimate parent undertaking of the Company:

	2016 £m	2015 £m
Supply of services by the Company	**25**	31
Purchases of goods / services by the Company	**(205)**	(173)
Amounts owed to the Company	**2**	8
Amounts owed by the Company	**(102)**	(112)

Services supplied to Twenty-First Century Fox

During the year, the Company supplied programming, airtime, transmission, transponder facilities, marketing consultancy services, channel distribution services and set-top boxes to Twenty-First Century Fox, Inc companies.

Purchases of goods and services and certain other relationships with Twenty-First Century Fox

During the year, the Company purchased programming, technical and marketing services from Twenty-First Century Fox, Inc.

b) Key management

The Company has a related party relationship with the Directors of the Company as key management. At 30 June 2016, there were two (2015: two) key managers, both of whom were Directors of the Company. For further details, see note 7(b).

c) Transactions with parent company

The Group's treasury function is responsible for liquidity management across the Group's operations. It is standard practice for the Company to lend and borrow cash to and from subsidiaries as required. Under this policy, the Company paid £214 million (2015: received £496 million) on behalf of Sky plc.

27. Transactions with related parties (continued)

d) Transactions with subsidiaries

The Company conducts business transactions with subsidiaries:

	2016	2015
	£m	£m
Supply of services by the Company	**22**	29
Purchases of goods / services by the Company	**(2,922)**	(2,162)

For details of amounts owed by and owed to subsidiaries, see note 15 and note 16.

Principal services supplied to subsidiaries:
- Supply of access to selected third party channels.

Principal goods/services purchased from subsidiaries:
- Installation services and box costs
- Call handling services
- Telemarketing services
- Broadcast subsidy recovery
- Subscriber handling
- Intellectual property rights

The Group's treasury function is responsible for liquidity management across the Group's operations. It is standard practice for the company to lend and borrow cash to and from subsidiaries as required. Under this policy, the Company paid £3,181 million on behalf of its subsidiaries (2015: Company paid £2,680 million).

During the prior year, as part of a Group reorganisation, assets of the Company amounting to a net book value of £465 million were transferred out to SSSL and Sky CP Limited.

e) Transactions with joint ventures and associates

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

f) Transactions with other Group companies

The Group's treasury function is responsible for liquidity management across the Group's operations. It is standard practice for the Company to lend and borrow cash to and from other Group companies as required. Under this policy the Company paid £404 million on behalf of other Group companies during the year (2015: received £4,475 million).

g) Forward contracts on behalf of Sky In Home Service Limited

The Company took out a number of forward contracts with counterparty banks during the prior year on behalf of its subsidiary Sky In-Home Service Limited (SHS Ltd). On the same dates as these forward contracts were entered into, the Company entered into equal and opposite contracts with SHS Ltd in respect of these forward contracts.

The Company was not exposed to any of the net gains or losses on these forward contracts. The face value of the forward contracts that had not matured as at 30 June 2016 was £1,023 million (2015: £458 million).

27. Transactions with related parties (continued)

g) Forward contracts on behalf of Sky In Home Service Limited (continued)

During the year, US$497 million (2015: US$380 million) was paid to SHS Ltd upon maturity of forward exchange contracts and £322 million (2015: £241 million) was received from SHS Ltd upon maturity of forward exchange contracts.

h) Forward contracts on behalf of Sky Italia

The Company took out a number of foreign exchange contracts with counterparty banks during the year on behalf of the indirect subsidiary Sky Italia. On the same dates as these forward contracts were entered into, the Company entered into equal and opposite contracts with Sky Italia in respect of these forward contracts.

The Company was not exposed to any of the net gains or losses on these forward contracts. The face value of the forward contracts that had not matured as at 30 June 2016 was £1,013 million (2015: £760 million).

During the year, US$436 million (2015: US$172 million) was paid to Sky Italia upon maturity of forward exchange contracts, £6 million (2015: Nil) was paid to Sky Italia upon maturity of forward exchange contracts and €378 million (2015: €139 million) was received from Sky Italia upon maturity of forward exchange contracts.

i) Forward contracts on behalf of Sky Deutschland

The Company took out a number of forward exchange contracts with counterparty banks during the year on behalf of the indirect subsidiary Sky Deutschland AG. On the same dates as these forward contracts were entered into, the Company entered into equal and opposite contracts with Sky Deutschland AG in respect of these forward contracts.

The Company was not exposed to any of the net gains or losses on these forward contracts. The face value of the forward contracts that had not matured as at 30 June 2016 was £653 million (2015: £351 million).

During the year, US$100 million (2015: US$15 million) was paid to Sky Deutschland AG upon maturity of forward exchange contracts, £16 million (2015: Nil) was paid to Sky Deutschland AG upon maturity of forward exchange contracts and €108 million (2015: €13 million) was received from Sky Deutschland AG upon maturity of forward exchange contracts.

j) Derivative contracts on behalf of Sky plc

The Company took out a number of interest rate/cross-currency derivative contracts with counterparty banks during the year on behalf of its parent company Sky plc. On the same dates as these derivatives were entered into, the Company entered into equal and opposite contracts with Sky plc in respect of these interest rate and cross-currency swaps.

The Company was not exposed to any of the net gains or losses on these derivative contracts. The face value of the swaps that had not matured as at 30 June 2016 was £3,444 million (2015: £3,031 million).

k) Derivative contracts on behalf of Sky CP Limited ("Sky CP Ltd")

The Company took out a number of forward exchange contracts with counterparty banks during the year on behalf of the indirect subsidiary Sky CP Ltd. On the same dates as these forward contracts were entered into, the Company entered into equal and opposite contracts with Sky CP Ltd in respect of these forward contracts.

27. Transactions with related parties (continued)

k) Derivative contracts on behalf of Sky CP Limited ("Sky CP Ltd")

The Company was not exposed to any of the net gains or losses on these forward contracts. The face value of the forward contracts that had not matured as at 30 June 2016 was £81 million (2015: Nil).

During the year, none of the above forward exchange contracts matured.

28. Ultimate parent undertaking

The Company is a wholly-owned subsidiary undertaking of Sky plc ("Sky"), a company incorporated in the United Kingdom and registered in England and Wales. The Company operates together with Sky's other subsidiaries, as a part of the Sky Group (the "Group"). The only group in which the results of the Company are consolidated is that headed by Sky plc.

The consolidated financial statements of the Group are available to the public and may be obtained from the Company Secretary, Sky plc, Grant Way, Isleworth, Middlesex, TW7 5QD.