



SKY PLC

Unaudited results for the three months ended 30 September 2015

STRONG START TO THE YEAR

Excellent financial performance

- 6% increase in group revenue to £2.8 billion
- 10% increase in operating profit to £375 million

Strong customer demand and loyalty across the group

- 134,000 new customer additions
- 937,000 new paid-for subscription products, with 133,000 new broadband subscribers in the UK
- Strong churn performance across all territories

Strengthening leadership in content and innovation

- Taking Sky's original drama to the next level: *The Last Panthers* to launch across the group
- Securing the best content: multi-year agreements with Disney and SANZAR rugby
- Driving connected services: over 750 million views across 9.6 million connected households

Jeremy Darroch, Group Chief Executive, commented:

"We have made a strong start to the year with customers responding well to the quality and breadth of our content, products and services. As we continue to place customers right at the heart of our business, we are focused on offering the very best content at the same time as anticipating customers' evolving needs, delivering the programmes that they love across multiple platforms and devices.

"This approach has delivered an excellent financial performance in the quarter, with further broad-based revenue growth of 6%, translating into a 10% increase in operating profit. This performance was driven by strong demand across the group. We added over 130,000 new customers in the quarter, up 7% on the previous year, which means that we've added almost a million new customers over the past twelve months, up 51% year on year. Our total product base now exceeds 54 million, and within this, broadband growth in the UK had a stand-out performance this quarter, up 77% year on year.

"Our investments in content are driving a great performance on screen, with highlights this quarter including record viewing of Sky Atlantic in the UK, of the Bundesliga in Germany and the *X Factor* in Italy. We are building scale in our own world class original content, as well as securing key rights including multi-year deals with Disney and SANZAR southern hemisphere rugby.

"We want to make the viewing experience even better for all our customers. Following the success of our proven connected home strategy in the UK and Ireland, we are beginning to roll this out across our other territories. We now have almost 10 million connected households across the group, driving over 750 million views to our connected services this quarter alone.

"As these results show, we are delivering against a clear set of plans across Europe, and are well positioned for the growth opportunities ahead."

Results highlights

Group operational performance

(000s)	As at 30-Sept-15	As at 30-Sept-14	Annual Change	Quarterly Growth to 30-Sept-15
Products	54,720	50,465	+4,255	+937
Retail customers	21,140	20,158	+982	+134
Churn (%)				
UK & Ireland	9.8%	10.9%	-1.1%	
Germany & Austria	9.0%	9.4%	-0.4%	
Italy	10.0%	10.0%	-	

Churn calculated on 12 month rolling basis

Group financial performance

	3 months to 30 Sept 2015	3 months to 30 Sept 2014 at constant exchange rates	Foreign exchange impact	3 months to 30 Sept 2014 at actual exchange rates	Growth at constant exchange rates
Revenue	£2,793m	£2,647m	£88m	£2,735m	+6%
UK and Ireland	£2,003m	£1,869m	-	£1,869m	+7%
Germany and Austria	£336m	£304m	£35m	£339m	+11%
Italy	£454m	£474m	£53m	£527m	-4%
Operating Profit	£375m	£340m	£7m	£347m	+10%
UK and Ireland	£358m	£299m	-	£299m	+20%
Germany and Austria	(£8m)	£8m	£2m	£10m	-
Italy	£25m	£33m	£5m	£38m	-24%

Results are presented on an adjusted like for like basis including the results of Italy and Germany and Austria for the full period, and including the results of the continuing operations of UK and Ireland.

Operating profit for Germany & Austria is impacted by the previously announced change in amortisation profile which increased programming costs by £17m in the current period.

SUMMARY OF GROUP OPERATIONAL AND FINANCIAL PERFORMANCE

We have made a strong start to the year. In what was expected to be a tough trading period, our investments in world class content and innovation delivered a good quarter of financial and operational growth.

Group revenues for the period increased 6% to £2,793 million, leading to a 10% increase in operating profit to £375 million.

This excellent financial performance was driven by continued customer demand and loyalty. Across the group we added 134,000 new customers, up 7% on the prior year. At the same time, we grew paid-for subscription products by 937,000, taking our total products to over 54 million. Customer loyalty remained strong with 12 month rolling churn either flat or down across all territories.

In the UK and Ireland our investments in content and connected services helped to deliver customer growth of 77,000, up over 50% year on year and the highest rate of Q1 customer growth for four years. We also added 759,000 paid-for products, including 43,000 new TV additions and 133,000 new broadband additions, growth of 77% year on year. Churn of 9.8% was down 110 basis points year on year, our lowest Q1 level for 11 years. Revenue was up 7% to £2,003 million (2015: £1,869 million) which drove a 20% increase in profit to £358 million (2015: £299 million) helped by our strong focus on costs.

In Germany and Austria, we added 94,000 new customers. Total product growth was 236,000, including another strong quarter of Sky Premium HD, and churn was down 40 basis points year on year to 9.0%, aided by the impact of 24-month contracts. Revenue was up 11% to £336 million (2015: £304 million) whilst we recorded a loss of £8 million (2015: profit of £8 million) as the result of increased Bundesliga and Champions League costs and the change in amortisation profile.

Italy delivered a resilient performance against a challenging economic backdrop, and the loss of the Champions League rights on a platform that is more sports-focused. In the quarter, we had a loss of 37,000 customers with products down 58,000, largely driven by a one-time increase in HD subscribers in the prior year as we unbundled the HD product. We saw another good performance on churn which remained at 10.0%. Revenue was down 4% to £454 million (2015: £474 million) largely due to lower customer numbers, although down only 3% on an underlying basis excluding the impact of the discontinuation of programme sales to Mediaset Premium and advertising revenues from the 2014 FIFA World Cup. Profit was down £8 million year on year to £25 million (2015: £33 million).

Content

Building on the significant momentum established in content last year, we have had a strong quarter on screen with record audiences across our portfolio.

In entertainment, Sky Atlantic had a stand-out quarter across the group with total viewing up over 70% year on year in the UK and Ireland, up 28% in Germany and Austria, and up 16% in Italy. This was driven by the second series of *True Detective* across the group, as well as the channel's strong box set offering - including titles such as *Sons of Anarchy*, *Entourage* and *True Blood* - in the UK and Ireland. The quality of our Sky Atlantic documentary work was also

recognised, with the Sky original commission *Going Clear: Scientology and the Prison of Belief* winning three Emmy Awards. On Sky Uno in Italy, the latest series of *X Factor* achieved record audiences in the quarter, whilst the first episode of *You, Me and The Apocalypse* in the UK was our biggest original drama series on Sky 1 since 2012.

Sky Sports in each market continued to be the first choice for sports fans. Our Bundesliga audiences set new records, with Q1 viewing up 4% year on year. In Italy, the nation's basketball match against Lithuania attracted an audience of over 650,000, an all-time high for the sport. The Europa League has also got off to a great start, with average audiences of 885,000, up 13% from the 2013/14 season. And in the UK and Ireland, total consumption in the quarter was up 3% year on year, with the boxing match between Anthony Joshua and Gary Cornish attracting the largest linear boxing audience for 12 years.

We are executing our plans to deliver world class original content across all our European platforms, with over 150 hours of Sky original drama now in production. Next month the major six-part new crime drama, *The Last Panthers*, launches simultaneously across all territories, starring BAFTA Award winner Samantha Morton, double Cesar award winner Tahar Rahim, and three-time BAFTA Award winner and Golden Globe® winner John Hurt, with the title track written and performed by music legend David Bowie. Sky Vision, in partnership with StudioCanal, is managing worldwide distribution of the drama, with sales already made to HBO Nordic, and SundanceTV in the US.

In parallel to growing our original productions, we continue to work with our content partners and have had a successful quarter in securing important rights across our markets.

In entertainment we extended our collaboration with Viacom by adding two new pay channels to Sky's offer in Italy – MTV Next and Teen Nick – as well as agreeing improved streaming and catch-up rights for Comedy Central, Nick Jr and Nickelodeon. We also agreed a new multi-year deal with Disney in the UK and Ireland, meaning our customers can continue to enjoy the very best Disney movies and TV entertainment.

Sky Sports in the UK has continued to strengthen its breadth of live sport by agreeing rights to La Liga, the Scottish Premiership Football League, and England Cricket tours to Bangladesh and Pakistan, meaning Sky Sports viewers can now enjoy over 50 England Tests and more than 360 days of scheduled live England cricket over the next five years. In addition, Sky Sports secured The Open golf a year earlier than originally announced, starting in 2016, and today we've announced a new contract with SANZAR which will provide viewers with at least 150 fixtures a year from the top domestic and international competitions in South Africa, New Zealand, Australia and Argentina. In Germany and Austria, we extended our rights to broadcast Formula 1 across all platforms.

Innovation

We are focused on enabling our customers to access and consume our world leading content whenever and wherever they want. At the heart of this strategy is bringing customers the benefits of the connected platform. As proven by our performance in the UK, this not only improves customer satisfaction and loyalty, but also allows us to generate additional revenue streams as customers take more products from us. We therefore see a significant opportunity to roll out our connected strategy across the whole group.

Our connected services are transforming the customer viewing experience and growing in popularity. Our connected platform has grown by 2.3 million homes year on year to reach 9.6 million homes across the group. This has driven a 33% increase in total views to our connected services, reaching over 750 million in the quarter. In the UK, almost two thirds of on demand viewing was to pay content, driven by hit movie titles such as *Teenage Mutant Ninja Turtles*, *Interstellar* and *Maze Runner*. In Germany, views were up almost 50%, with total movie downloads in Italy up 37% year on year. These trends were both driven by the crime thriller *The Equalizer*, as well as the hugely popular comedy films *Fack ju Göhte*, in Germany, and *Andiamo a quel paese*, in Italy.

Our connected boxes are a proven platform for driving new revenues. Sky Store revenues were up 50% year on year, with over one million unique customers using our Buy & Keep service since launch. In the quarter we firmly established ourselves as the number one digital retailer in the UK for key new release titles such as *Fast and Furious 7* and *Home*.

Our innovative targeted advertising platform, Sky AdSmart, continues to build momentum with 500 advertisers now having run 3,200 campaigns and more than 2.5 billion impressions delivered to customers on the platform. We have grown the proposition by launching across more services through our on demand offering, whilst our targeting capability continues to expand. This month, we have launched our newest product, Sky AdVance, which allows companies to execute sequential advertising campaigns across each of TV, web and mobile.

Our streaming services continue to broaden our reach among new customer segments. In a further quarter of strong growth for NOW TV, the introduction of the Sky Sports Month Pass has successfully complemented the weekly and daily passes, with the number of passes purchased close to double the same period last year. The Monthly Sky Football Pass launched on Sky Online in Italy in September, whilst in Germany we expanded the availability of Sky Online to over 200 devices including LG and Samsung smart TVs and Chromecast.

Synergies and integration

We continue to make good progress on integration, focusing on our priority workstreams, and we are on track to hit our run-rate synergies target as we exit FY2017. During the quarter we have deployed experienced UK talent across the group into senior positions, and have begun to roll out a converged set of brands in all territories with Sky Atlantic, Sky Uno and Sky Krimi channels updated with common branding in September, whilst our advertising sales business in each market has rebranded to Sky Media. Finally, we are sharing best practice across the group, for example, in Germany we have recently launched Sky Go Extra, as well as Sky Arts On Demand, to be followed by the linear channel in spring 2016.

GROUP FINANCIAL PERFORMANCE

Unless otherwise stated, all growth rates and comparative amounts are presented on a constant currency basis using current period exchange rates. The financial results of Italy and Germany are translated into sterling at a constant currency rate of €1.40:£1. For a reconciliation to amounts at actual exchange rates see page 2.

Revenue

Adjusted group revenues grew by 6% to £2,793 million (2015: £2,647 million). This consisted of 7% growth in the UK and Ireland to £2,003 million (2015: £1,869 million) whilst Germany grew 11% to £336 million (2015: £304 million). Italy's revenues were down 4% to £454 million (2015: £474 million) due to lower average customers as well as the discontinuation of programme sales to Mediaset Premium and the absence of advertising revenues from the 2014 FIFA World Cup. Revenues were down 3% on an underlying basis, excluding these impacts.

Subscription revenue, our largest category, delivered strong revenue growth of 5% across the group. Over the past twelve months we've added nearly 1 million retail customers and over 4 million products whilst bringing forward our annual TV price rise in the UK to June. The growth in subscription revenue was achieved against the economic headwinds in Italy and against a backdrop of the loss of the Champions League rights.

Transactional revenues were up 8% with the continued strong performance of Sky Store in the UK including Buy & Keep, and growth in demand for NOW TV Sports passes where both transactions and revenues have doubled.

Our commercial businesses continue to grow with advertising revenue up 5% and wholesale and syndication revenue was our fastest growing area, up 14%. We benefitted from the continued international programme sales of our original commissions in Sky Vision and the first time consolidation of Blast! Films and Jupiter Entertainment.

Costs

Total costs were up 5%, below the rate of revenue growth.

Within this, programming costs were up 4%, with the benefit of the absence of the Ryder Cup and the FIFA World Cup this year partially offset by higher Bundesliga costs. These related to the expected annual contractual step-up and negative impact from the previously announced change in the amortisation profile, which better reflects how customers consume these rights. During the quarter we continued to invest in our content portfolio, gaining exclusive rights to the Fox Sports channel in Italy and launching a Star Wars channel in the UK.

Direct networks costs increased 4%, well below the rate of revenue growth in our home communications business.

Sales, general and administration costs increased by 6%. We maintained our share of voice in the UK and Italy to mitigate the loss of the Champions League rights and invested in marketing

in Germany to continue the strong customer growth. These increases were partially offset by savings from our ongoing operating efficiency programmes in Italy and the UK.

Profit

Group operating profit grew strongly, up 10% to £375 million (2015: £340 million). Operating profit growth was driven by an excellent performance on revenue and good control over our cost base, resulting in a 60 basis point expansion in our operating margin.

Adjusting for depreciation and amortisation of £154 million, group EBITDA was up 7% to £529 million (2015: £494 million).

Net debt

Net debt at the end of the quarter was £6,042 million, up as expected from 30 June 2015 due to the payment of €238 million on the completion of the Sky Deutschland squeeze-out, usual seasonal cash out flows (with the first instalment of the Premier League for example being paid in August) and the retranslation of our euro denominated debt of €7.4 billion at a higher exchange rate (Euro debt translated at £1:€1.36 versus £1:€1.41 at 30 June 2015). The ratio of net debt to annualised EBITDA at 30 September was approximately 2.8 times. On 15 October 2015 we repaid from available cash on their maturity \$750 million of bonds issued in October 2005 and bearing an interest rate of 5.625%. Our overall pre-tax cost of debt is well below 4% per annum with an average maturity across the bond portfolio of 7.5 years.

CORPORATE

Sky Deutschland delisting

On 15 September 2015, Sky completed the acquisition of the remaining approximately 4% minority shareholdings in Sky Deutschland AG. As a result, Sky Deutschland AG was delisted from the Frankfurt Stock Exchange on 24 September 2015.

Ofcom's Strategic Review of Digital Communications

On 8 October, Sky submitted its response to Ofcom's strategic review of digital communications. In the submission, we outline a series of growing problems in the sector including i) the risk of diminishing competition in the provision of broadband services, ii) the inadequate quality of service delivered by BT's Openreach division - and its significant impact on UK consumers and businesses, and iii) the level and type of investment in the UK's fixed line communications infrastructure, at a time when fibre-to-the-premise networks are being rolled out in other countries around the world. We believe that BT's vertical integration - the combination of the UK's largest retailer of fixed line communications services, with the operator of the UK's only ubiquitous fixed line access network - lies at the heart of these issues. In our submission, we note that the threshold for a reference to the Competition and Markets Authority for a market investigation is clearly met. We believe that Ofcom should consult as soon as possible on making a reference to the CMA, which has examined market structure in sectors such as energy and transport and has wide-ranging powers including requiring separation.

Schedule 1 – Group KPI Summary (unaudited)

All figures (000) unless stated	FY 13/14			FY 14/15				FY 15/16
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
UK and Ireland	33,307	34,071	34,775	35,535	36,555	37,315	38,036	38,795
Germany and Austria	5,895	6,025	6,164	6,373	6,794	7,006	7,133	7,369
Italy	8,179	8,216	8,227	8,557	8,603	8,633	8,614	8,556
Total Products	47,381	48,312	49,166	50,465	51,952	52,954	53,783	54,720
UK and Ireland	11,330	11,420	11,495	11,546	11,750	11,877	12,001	12,078
Germany and Austria	3,667	3,731	3,813	3,908	4,123	4,225	4,280	4,374
Italy	4,760	4,751	4,725	4,704	4,734	4,746	4,725	4,688
Retail customers	19,757	19,902	20,033	20,158	20,607	20,848	21,006	21,140
UK and Ireland	3,624	3,602	4,041	4,035	4,080	4,077	4,028	4,051
Germany and Austria	268	258	213	155	155	154	146	144
Italy	-	-	-	-	-	-	-	-
Wholesale customers	3,892	3,860	4,254	4,190	4,235	4,231	4,174	4,195
Total Customers	23,649	23,762	24,287	24,348	24,842	25,079	25,180	25,335
Churn								
UK and Ireland	10.9%	11.0%	10.9%	10.9%	10.5%	10.1%	9.8%	9.8%
Germany and Austria	11.4%	10.9%	10.4%	9.4%	8.3%	8.5%	8.6%	9.0%
Italy	13.1%	10.9%	10.3%	10.0%	10.0%	9.7%	9.6%	10.0%
ARPU								
UK and Ireland	£46	£46	£46	£46	£47	£47	£47	£47
Germany and Austria	€36	€36	€36	€36	€35	€35	€34	€34
Italy	€43	€43	€43	€43	€43	€43	€43	€42

Page 2 and table above

- Wholesale customers taking at least one paid-for Sky channel. The customer numbers are as reported to us at the end of September 2015.
- In the UK and Ireland, paid-for products includes TV, Sky+ HD, Multiscreen, Sky Go Extra, Broadband, Line Rental and Telephony.
- In Italy, paid-for products includes TV, Multivision and paying HD.
- In Germany and Austria, paid-for products includes TV, Second Smartcard, Premium HD and Mobile.
- ARPU is quarterly annualised, residential and presented as a monthly amount.
- Churn is 12 month rolling and includes residential customers only, unless otherwise stated.

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There will be a conference call for analysts and investors at 8.30 a.m. (BST). Participants should register by contacting Holly Dymock on +44 20 7251 3801 or at Holly.Dymock@Finsbury.com. There will be a separate conference call for US analysts and investors at 10.00 a.m. (EDT). To register for this please contact Dana Diver at Taylor Rafferty on +1 212 889 4350. Alternatively you may register online at http://www.event-taylor-rafferty.com/_sky/2015Q3/Default.htm. A live webcast of both conference calls will be available via the Sky website at <http://www.sky.com/corporate>. Replays will subsequently be available.

Use of measures not defined under IFRS

This press release contains certain information on the Group's financial position, results and cash flows that have been derived from measures calculated in accordance with IFRS. This information should not be read in isolation from the related IFRS measures.

Forward looking statements

This document contains certain forward looking statements with respect to the Group's financial condition, results of operations and business, and our strategy, plans and objectives for the Group. These statements include, without limitation, those that express forecasts, expectations and projections, such as forecasts, expectations and projections in relation to new products and services, the potential for growth of free-to-air and pay television, fixed line telephony, broadband and bandwidth requirements, advertising growth, DTH and OTT customer growth, On Demand, NOW TV, Sky Go, Sky Go Extra, Sky+ HD, Sky Store, Sky Online, mobile, Multiscreen and other services penetration, revenue, administration costs and other costs, advertising growth, churn, profit, cash flow, products and our broadband network footprint, content, wholesale, marketing, synergies and integration, and capital expenditure.

Although the Company believes that the expectations reflected in such forward looking statements are reasonable, these statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond our control, are difficult to predict and could cause actual results to differ materially from those expressed or implied or forecast in the forward looking statements. Information on the significant risks and uncertainties are described in the "Principal risks and uncertainties" section of Sky's Annual Report for the full year ended 30 June 2015. Copies of the Annual Report are available from the Sky plc web page at www.sky.com/corporate and in hard copy from the Company Secretary, Sky plc, Grant Way, Isleworth, Middlesex TW7 5QD.

All forward looking statements in this document are based on information known to the Group on the date hereof. The Group undertakes no obligation publicly to update or revise any forward looking statements, whether as a result of new information, future events or otherwise.