



**SKY PLC**

**Unaudited results for the six months ended 31 December 2015**

Six months to 31 Dec	2015/16	2014/15	Variance
Revenue	£5,718m	£5,437m	+5%
- Statutory revenue	£5,718m	£4,302m	+33%
EBITDA	£1,049m	£973m	+8%
Operating profit	£747m	£667m	+12%
- Statutory operating profit	£524m	£536m	-2%
Earnings per share (basic)	29.9p	27.1p	+10%
- Statutory earnings per share (basic)*	21.0p	63.6p	-67%
Dividend per share	12.6p	12.3p	+2%

\* 2014/15 statutory EPS (basic) included the profit on the sale of our shareholdings in ITV and Nat Geo

**EXCELLENT FIRST HALF RESULTS: EXCITING PLANS FOR 2016**

**Strong demand from customers**

- 337,000 new customers joined Sky in Q2; highest UK and Ireland customer growth for ten years
- Customers bought 1.1 million new products, with strong demand for both TV and broadband

**Extending our leadership on screen**

- Key rights secured: Showtime, HBO, Premier League and USA PGA Tour
- Over 100 Sky original dramas in development or production

**Market leading innovation gathering pace**

- 10 million homes now connected
- Significant enhancements coming to Sky+
- On Demand, Box Sets and Sky Go Extra services rolling out in Germany and Italy
- Launch of an even better NOW TV box
- Sky Q, our ground-breaking new TV product, available to buy in the UK and Ireland from February

**Excellent financial performance**

- Further strong revenue growth of 5% to £5.7 billion
- Highest ever first-half operating profit, up 12% to £747 million
- Increase in interim dividend to 12.6 pence per share

**New Chairman and Deputy Chairman announced**

- Nicholas Ferguson CBE to step down as Chairman and as a Director after 12 years on the Board
- James Murdoch appointed Chairman; Martin Gilbert appointed Deputy Chairman

*Unless otherwise stated, all results are on an adjusted like-for-like basis including the results of Italy and Germany & Austria for the full period. Prior period adjusted results down to operating profit are stated on a constant currency basis, at a rate of €1.39:£1, being the average rate for the current period.*

**Jeremy Darroch, Group Chief Executive, commented:**

“We have had another very strong half as we continue to transform Sky, broadening our business and expanding into new markets and customer segments. This strategy is delivering today and opening up significant growth opportunities for the future. We are pursuing those opportunities with energy and purpose.

“Today’s results show that our approach is working and customers are responding in record numbers. Over 337,000 new customers joined Sky in the second quarter and we sold 1.1 million extra paid-for products. This has delivered strong financial performance with revenue growth of 5%, a 12% increase in operating profit and 10% growth in earnings per share.

“All of our markets are now clearly benefiting from our leadership in content and innovation and being part of the broader Sky. The launch of Sky Q will redefine our top-end TV experience and extend our market-leading portfolio of products to serve the needs of every customer.

“We have extended our lead in content with a ground-breaking new long-term deal with Showtime, which complements both Sky’s original productions and our partnership with HBO to make Sky Atlantic the best destination for world-class drama across Europe. This will bring customers the return of great shows that include *Fortitude*, *Game of Thrones* and *The Affair* alongside new productions such as *Vinyl*, *Billions* and *The Young Pope*.

“We have also announced that Nick Ferguson, our Chairman since 2012, will step down from the Sky Board at the end of April after 12 years as a Director. The entire Board offers its warmest thanks to Nick for his leadership as Chairman and the major contribution he has made to Sky over many years. We’re delighted that James Murdoch has agreed to step into the role of Chairman. James’ deep knowledge of the international media industry and his passion for supporting Sky’s ongoing success will make an even greater contribution to our business in the future.

“We’re excited about 2016 and we start the year with good momentum. With an outstanding set of new initiatives and products for our customers, we are well positioned to deliver further strong growth and returns for shareholders.”

## Results highlights

### Group operational performance (Q2)

(000s)	As at 31-Dec-15	As at 31-Dec-14	Annual Growth	Quarterly Growth to 31-Dec-15
<b>Products</b>	<b>55,866</b>	<b>51,952</b>	<b>+3,914</b>	<b>+1,146</b>
<b>Retail customers</b>	<b>21,477</b>	<b>20,607</b>	<b>+870</b>	<b>+337</b>
<b>Churn (%)</b>				
UK & Ireland	10.2%	10.5%		
Germany & Austria	9.8%	8.3%		
Italy	9.9%	10.0%		

Churn calculated on 12 month rolling basis

### Group financial performance

	6 months to 31-Dec-15	6 months to 31-Dec-14 at constant currency	Foreign exchange impact	6 months to 31- Dec-14 at actual exchange rates	Growth at constant currency
<b>Revenue</b>	<b>£5,718m</b>	£5,437m	£167m	<b>£5,604m</b>	<b>+5%</b>
UK and Ireland	£4,072m	£3,831m	-	£3,831m	+6%
Germany and Austria	£693m	£628m	£66m	£694m	+10%
Italy	£953m	£978m	£101m	£1,079m	-3%
<b>Operating Profit</b>	<b>£747m</b>	£667m	£8m	<b>£675m</b>	<b>+12%</b>
UK and Ireland	£756m	£650m	-	£650m	+16%
Germany and Austria	(£34m)	(£14m)	£1m	(£13m)	NM
Italy	£25m	£31m	£7m	£38m	-19%

Results are presented on an adjusted like for like basis including the results of Italy and Germany and Austria for the full prior period, and including the results of the continuing operations of UK and Ireland. The constant currency rates used for translating the financial results of Italy and Germany and Austria into sterling are €1.39:£1, being the average rate for the current period.

Operating profit for the period to 31 December 2015 in Germany and Austria is impacted by the previously communicated change in amortisation profile for Bundesliga rights which had the effect of increasing programming costs by £17 million in the current period compared to the prior period.

## **SUMMARY OF GROUP OPERATIONAL AND FINANCIAL PERFORMANCE**

In the first half of the year, we continued to make strong progress. We have focused on our core areas, making the right investments in market-leading content and innovation, and delivered outstanding customer service. We have converted these into strong revenue and profit growth. Alongside our subscription business, we have continued to build our transactional services and adjacent businesses to maximise monetisation of our investments in content.

Across the enlarged Sky group, we are executing well and making good progress on integration, sharing plans and expertise to capture the significant growth opportunity ahead. This has driven strong demand for our products and services. We added 337,000 new customers in Q2, taking our total retail customer base to 21.5 million. We added 1.1 million new paid-for products, with growth across all markets.

Our operational performance delivered good revenue growth, up 5% for the period to £5,718 million. A good performance on operating costs converted this into a 12% increase in operating profit to £747 million. Reflecting this strong performance, the Board has declared a 2% increase in the interim dividend to 12.6 pence.

### **UK and Ireland**

The UK and Ireland delivered a very strong performance. In the quarter, retail customers grew by 205,000 - our strongest Q2 performance in 10 years - and we added 778,000 new paid-for products, taking our product base to over 39 million. We added a further 146,000 TV customers in the quarter, while churn was down 30 basis points year on year to 10.2%, the lowest Q2 level for four years.

We are making good progress in broadband as the strong performance of the first quarter continued. In the second quarter, broadband growth was up 27% year on year to 144,000. Across the half we attracted 277,000 new broadband customers, an increase of 53% year on year. This performance reflects the quality of our offer and our superior customer service, with Sky ranked by Ofcom as the best performing provider in terms of customer satisfaction. Alongside this, we are pleased with the progress we are making in our plans to add mobile to our offering.

This excellent operational performance delivered revenue growth of 6% to £4,072 million, and operating profit up 16% to £756 million.

### **Germany and Austria**

In Germany and Austria we added 120,000 customers in Q2, bringing total customer growth for the past 12 months to over 370,000 and making Germany one of Europe's fastest-growing pay TV markets. This was a good performance against the backdrop of churn rising to the more normalised level of 9.8% due to the expected impact of customers reaching the end of 24-month contracts. Paid-for product growth was strong at 345,000 with HD growth up 8% year on year to 161,000.

Revenue increased 10% to £693 million driven by strong customer growth. The operating loss of £34 million was due to the annual increase in Bundesliga costs, step-up in Champions League costs under the new 2015-18 deal, and the change in amortisation profile a year ago which meant that we amortised six months of Bundesliga costs in the current period compared to only five months in the prior year. Operating costs also rose as we chose to invest in box sets, higher marketing and rolling out our connected home strategy, incurring one time hardware costs in the form of wifi connectors.

## Italy

In Italy we traded well in a highly promotional environment, which saw heavy discounting from competitors against the backdrop of our loss of the Champions League rights. We increased our customers by 12,000 in the quarter and added 23,000 paid-for products as customers continue to respond to our broad content offering and the roll out of our connected home strategy. We delivered an excellent performance on churn – down 10 basis points year on year to 9.9%, supported by very good uptake of our new customer loyalty programme.

Revenue decreased 3% to £953 million due to a reduction in customers over the past year and the absence of advertising revenues from the FIFA World Cup which were present in the prior year. Operating profit of £25 million (2015: £31 million) was down £6 million, as the lower revenue was partially offset by the ongoing success of our operating efficiency programme, as well as savings in programming costs.

## Content

Customers across our markets are responding well to our world class content.

The quality of our movie channels and on demand titles has delivered record results in movie viewing. Over Christmas, we had highest ever weekly audience to Sky Movies in the UK and our pop up channels were popular across our markets. The Bond 007 channels in Germany and Italy each achieved almost one million views of leading titles, and the Harry Potter channel reached more than 3 million viewers in the UK.

Our breadth of sports coverage has also delivered record breaking audiences. In golf, the British Masters was the most watched European Tour event of the season and rugby's Super League Grand final achieved its highest UK audience for five years. In Italy we set an all-time record in MotoGP, with a 48% share of viewing for the season finale on Sky Sports MotoGP HD and Cielo.

Our range of stand-out entertainment and drama is also resonating with our customers. In Italy, the final of *X Factor* delivered a record audience, up over 30% versus the prior year. In the UK *Flash*, *Supergirl* and *Arrow* all achieved over 1 million viewers, while *Fungus the Bogeyman* was our best performing Christmas special in four years. On Sky Living, *Blindspot* provided the channel with its strongest launch programme ever, while Sky Arts achieved a record audience with *Portrait Artist of the Year*.

Our customers are embracing the opportunity to view our world-class content on catch-up, on demand and on mobile devices. This is demonstrated by the response to our critically acclaimed

original production *The Last Panthers*. The live premiere of the first episode was watched by 300,000 viewers across Europe, growing by a factor of four to more than 1.3 million over the following 30 days as customers watched the show whenever and wherever they chose.

The quality of our content means it is attracting a worldwide audience. Sky Vision has sold the first series of *Fortitude* in over 120 territories. In addition, the first series of *Gomorra* was sold in over 110 countries, and *The Young Pope*, our major new Sky Original Production, has already been pre-sold to over 80 territories across the world, reflecting the quality of the content that we are producing at Sky.

### **Plans for 2016: Content**

We are making progress across Europe, securing long-term, strategic deals to complement our own investment in original production. This combination enables us to offer our customers exclusive, world-class content.

Building on our new HBO deal announced in November, we have agreed a significant pan-European partnership with Showtime, one of the US' most exciting networks. The agreement means our customers can exclusively enjoy new Showtime dramas like *Billions*, which premiered in the US on 17 January 2016 with the best series debut performance ever for a Showtime original series. Other new series include the return of *Twin Peaks* and new seasons of hits such as *Ray Donovan* and *The Affair*, alongside an acclaimed catalogue including *Dexter*, *Californication*, and *House of Lies* on demand. From HBO we can look forward to *Vinyl*, co-created by Martin Scorsese and Mick Jagger, which premieres in February, and the return of *Game of Thrones* in April.

To complement our acquired content, our Sky original productions are reaching scale. Looking into 2016, we have over 100 dramas in production or development, including nine returning series. Our pipeline is diverse and compelling, from new dramas such as *The Young Pope* to returning seasons of *Fortitude*, *The Tunnel* and *Gomorra*.

In sport, we have acquired exclusive rights to the English Premier League in Italy for the next three seasons and we can look forward to our best season ever in the UK in 2016/17 with the addition of new Friday night matches, enhanced first picks, and Saturday afternoon games in Ireland. In Germany, we have extended our long-term partnership with the US PGA Tour, with exclusive rights to over 40 golf events each year, and the popular handball Champions League.

### **Innovation**

We are continuing to transform the viewing experience for our customers across all territories. Our leadership in technology and innovation makes it even easier for customers to access our great content when and where they want. This approach improves customer engagement, satisfaction and loyalty, and opens up further revenue opportunities.

Our connected home strategy is progressing well across the group. We now have more than 10 million connected homes, which represents growth of over 2 million year on year. This has led to

almost 1.6 billion views across our connected services in the past six months, as customers continue to embrace the greater choice and flexibility we offer.

In the UK, over 7.5 million customers are connected, representing growth of 1 million year on year. This has resulted in a record 688 million connected views in Q2, up 33% year on year. Customers continue to enjoy our Sky Box sets, with viewing of titles such as *The Walking Dead*, *Grey's Anatomy* and *The Sopranos* up over 30% year on year. Our expanded kids portfolio, highlighted on the EPG home page from the start of this year, has driven a fourfold increase in downloads of this content genre.

In Italy, downloads reached over 70 million in the last six months, up over 40% year on year, with over 5 million downloads alone in a record breaking Christmas week on Sky Movies.

In Germany, where we started to roll out the strategy more recently, over 750,000 customers are connected with over 318,000 customers connecting in Q2 alone. In the quarter we launched our full On Demand service, giving customers access to thousands of titles, and the complete seasons of the latest series on Sky Box Sets. We also launched a new user interface, giving customers a more intuitive and exciting way to discover the breadth of our content.

We continued to expand our transactional services with Sky Store growing fast and already generating annualised revenues of £100 million. Our UK Buy & Keep service was the number 1 digital retailer in the UK for many new releases with our bestselling films in the quarter including *Minions*, *Jurassic World* and *Inside Out*. In November we launched our *Spectre* 'pre-order' campaign and this, along with our recent *Star Wars* campaign, have seen amongst the largest ever digital pre-order sales in the UK.

Our streaming services continue to meet the needs of a different customer segment. In the UK, NOW TV sports transactions were up 30% year on year to 472,000, as awareness of the service increased and we introduced the new Sky Sports month pass. In Germany, we strengthened Sky Online with more exclusive content including box sets from the former Snap catalogue, and we extended the service to Windows 10 smartphones, tablets and desktops.

Our targeted advertising platform, Sky Adsmart, continues to have great momentum. More than 700 advertisers have now used the service in over 4,000 campaigns, with more than 70% either new to Sky or new to TV advertising entirely. In addition, we launched the capability on the Sky Sports news channel in the quarter, so over 70 channels now utilise the technology.

### **Plans for 2016: Innovation**

With our continued focus on improving the customer experience, broadening our product range, and giving customers more reasons to join Sky and take additional products from us, we have exciting plans for the year ahead for all our customers.

Sky+ remains at the heart of our offer for millions of customers. From next month, customers in the UK and Ireland will receive the latest software update to their EPG, giving them an even easier way to enjoy their favourite box sets as a full series can be downloaded into their planner in one go. Later in the year we will launch a brand new homepage, showcasing more of our best

content and providing customers with an easy place to continue watching programmes they have yet to finish. In Italy, we will launch our full Sky Box Set service in March, whilst Sky Adsmart will be introduced later in the year.

Earlier this month, Sky Go received its biggest redesign since launch in the UK, making the user interface (UI) more engaging and intuitive. Features will be added throughout the year, including a recommendation service and a 'Watch next episode' prompt within Sky Box sets, giving more prominence to on demand content, a similar approach to that already adopted in Italy and Germany. On the mobile platform we're launching a fantastic new Sky Kids app, giving Sky+ customers access to a host of on demand and advert-free kids content. The app has been especially designed for kids, and includes the ability to select age appropriate content, giving parents peace of mind over their kids' viewing. The app will launch initially in the UK, and will roll out to our other markets in time.

Later in the year, we will launch a new Sky+HD box in Germany and Italy, giving customers updated features and technology. The box will be compatible with Sky Q functionality, giving our customers the ability to access Sky Q features, as detailed below, at a later date.

We launched NOW TV in the UK in 2012, and it has enabled us to reach a whole new segment of consumers. From next month, we will begin rolling out a new UI to our NOW TV customers, giving them an easier way to access the content they want. A new integrated homepage will give customers editorial recommendations on what to watch and the catch-up section will be curated directly by our content partners.

Later in the year we will be launching a brand new NOW TV box, offering seamless access to over 60 free-to-air channels alongside the pay content. This will be our most advanced NOW TV product to date and will offer a streaming service to customers who want to access live free-to-air television alongside some pay content, all in one integrated offering.

Next month we bring our ground-breaking Sky Q product to market in the UK. Not only will Sky Q redefine how we watch TV, but it makes it easier than ever for customers to access the best of the web and their own personal content along with their favourite TV shows, on the big screen and on their devices.

The Sky Q suite of products connects wirelessly, making TV viewing seamless, and enables customers to access a whole range of fantastic features. These include pausing viewing on one TV screen and picking up in another room, saving recordings onto a tablet to watch anywhere, and watching different programmes on up to five screens simultaneously whilst also recording four other channels.

In 2016, Sky Q will evolve with the addition of the UK's most comprehensive Ultra HD service, powerful voice search and its own app for mobile devices, plus more partnerships and content. Sky Q will sit alongside Sky+HD and NOW TV, giving us three complementary and outstanding products to offer our customers.



These significant additions to our portfolio, together with our ongoing commitment to help our customers get the most out of their Sky subscription, means that we are extremely well placed to serve the needs of all customers.

## **Service**

Our ability to invest in making our products and services even better for customers is underpinned by our efficient, flexible and agile operating model.

Our customer service leads the industry in the UK, with Ofcom's latest survey again rating us as number one for customer service. Our Digital First initiative is using our digital channels in the UK more effectively in front-line customer service, enabling our customers to have faster, more flexible service. One third of our customer service interactions in the UK are now made via our digital channels and this has reduced calls per customer by 9% year on year, the equivalent of 2.5 million fewer calls per year, and over 35% of our UK sales are now made online. This increased digital interaction is leading to improved customer satisfaction, with NPS at an all-time high and more than double the same period last year. Our approach is helping us reduce costs in the business and drive customer satisfaction even higher.

We continue to improve our performance as we share best practice across the group. In Italy, our commitment to a 'one call' solution and the optimisation of our digital channels has also contributed to a 13% year on year reduction in calls. In November we launched our innovative Extra loyalty scheme based on the tenure of our customers. Two months after launch over one million customers have signed up to the initiative, driving a 4% improvement in customer satisfaction scores year on year to record levels.

## **GROUP FINANCIAL PERFORMANCE**

Unless otherwise stated, all growth rates and comparative amounts are presented on an adjusted like-for-like basis and on a constant currency basis using current period exchange rates. The financial results of Italy and Germany are thereby translated at a rate of €1.39:£1. For a reconciliation to amounts at actual exchange rates see page 3.

### **Revenue**

Group revenues grew by 5% to £5,718 million (2015: £5,437 million). This consisted of 6% growth in the UK and Ireland to £4,072 million (2015: £3,831 million) while Germany grew 10% to £693 million (2015: £628 million). Italy's revenues were down 3% to £953 million (2015: £978 million) due to lower average customers, the discontinuation of programme sales to Mediaset Premium, and the absence of advertising revenues from the 2014 FIFA World Cup.

Subscription revenue, our largest category, delivered strong growth of £188 million (+4%) across the group. Over the past 12 months we have added nearly 1 million retail customers and over 3.9 million products. UK subscription revenue grew 5% due to TV and line rental price rises, and strong customer growth. Germany grew by 10% driven by good customer growth, whilst subscription revenue was down 4% in Italy.

Transactional revenue was our fastest growing area, up 19%. This is currently predominantly a UK revenue stream and the strong performance was driven by 35% growth in Sky Store, and two PPV sports events in the quarter.

Our commercial businesses continue to perform well. Group advertising revenue was up 8% with a particularly strong performance in Italy (up 16%) which continues to benefit from the strength of our Italian free-to-air channels, where we added MTV8 to our channel portfolio, and the success of *X Factor* and *Moto GP*. Advertising revenue was up 21% in Germany driven by the increased reach of our channels due to higher customer numbers year on year, and an additional Bundesliga match day in the period. Advertising revenue in the UK was up 5% with good growth in Adsmart.

Programme and channel sales revenue grew 18% benefiting from the growth in sales from our original commissions in Sky Vision and first time consolidation of Blast! Films and Jupiter Entertainment.

## **Costs**

Total costs grew by 4%, below the rate of revenue growth.

Programming costs were up 4% as we broadened our content portfolio. We benefitted from the absence of the Ryder Cup in all territories, the Champions League in both Italy and the UK and the FIFA World Cup that we broadcast in Italy. These savings were partially offset by the negative impact from the previously communicated change in the amortisation profile of rights in Germany, which better reflects how customers consume these rights. This impact was worth £17 million in the current period.

In Italy, we gained exclusive rights to the Fox Sports channel and we now broadcast exclusive Europa League coverage. In the UK, we have invested in our entertainment portfolio with original commissions and key acquisitions. Programming costs in Germany were higher year on year due to the increased Bundesliga and Champions League costs, as well as increased costs associated with having a larger customer base. In movies, we invested in pop-up channels across the group which achieved record audiences.

Direct network costs increased 7%, as we saw strong growth in home communications customers and increased fibre penetration over the past 12 months.

Sales, general and administration costs increased by 4%, primarily due to increased marketing costs to support our strong product growth in the UK and Germany. We continued to drive efficiencies through the service estate with calls handled down 9% in the first half and we are continuing to push operating efficiency initiatives across the group.

## **Profit and earnings**

Group operating profit grew strongly, up 12% to £747 million (2015: £667 million). Operating profit growth was driven by an excellent performance on revenue and good control over our cost base, resulting in an 80 basis point expansion in our operating margin.

Adjusting for depreciation and amortisation of £302 million, group EBITDA was up 8% to £1,049 million (2015: £973 million).

The share of joint ventures and associates' profits was £8 million (2015: £24 million) and net finance costs increased by £21 million to £106 million (2015: £85 million) due to higher gross debt.

The tax charge of £138 million (2015: £132 million) was at an effective tax rate of 21%.

Over the half year the weighted average number of shares excluding those held by the Employee Share Ownership Plan ('ESOP') for the settlement of employee share awards was 1,706 million (2015: 1,676 million). The closing number of shares excluding the ESOP shares at 31 December 2015 was 1,706 million (2015: 1,702 million).

### **Adjusting items**

Statutory profit for the period of £524 million (2015: £536 million) is after the deduction of operating expenses of £223 million principally comprising advisory and transaction fees incurred on the purchase of the remaining minority shareholdings in Sky Deutschland GmbH (formerly "Sky Deutschland AG"), the costs of integrating Sky Italia and Sky Deutschland GmbH in the enlarged group, the costs of a corporate efficiency and restructuring programme and the ongoing amortisation of acquired intangible assets. We also made a small net gain on the sale of a number of strategic minority equity stakes in technology start-up companies. These included the sale of our investment in Elemental Technologies, acquired by Amazon, and our investment in 1Mainsteam, acquired by Cisco.

### **Group cash flow and financial position**

Group free cash flow was £283 million (2015: £450 million). Free cash flow was lower year on year largely due to the first time consolidation of the cash flows of Italy and Germany for a full six month period which impacted working capital and capex.

Net debt as at 31 December was £5.7 billion (2015: £6.3 billion), a reduction of £600 million as the result of positive operating cash flow, the sale of our majority stake in Sky Bet and a £232 million benefit on retranslation of Euro denominated debt into sterling at a rate of €1.36 (2015: €1.28). The reduction was despite the cash outflow of £270 million to purchase the remaining minority shareholdings of Sky Deutschland GmbH. The ratio of net debt to EBITDA at 31 December was approximately 2.6 times (2015: 3.2 times).

Gross debt as at 31 December was £7.7 billion of which approximately 70 per cent was in Euros, the balance being sterling or fully swapped to sterling. During the period, we redeemed a \$750 million bond that matured and separately issued a new €500 million 10 year fixed rate bond.

The group has excellent liquidity with cash of £1.9 billion as at 31 December 2015 and access to a £1 billion Revolving Credit Facility which remained wholly undrawn throughout the period. Our bond portfolio is long dated with a weighted average maturity of 7.4 years and no debt falling due until October 2017. We have an investment grade credit rating, being rated BBB by Standard and Poor's and Baa2 by Moody's, both with stable outlook.

## **Distribution to shareholders**

The Directors have declared an interim dividend of 12.55 pence per share (2015: 12.30 pence per share), an increase of 2% on last year which continues our twelve year unbroken track record of growth. It remains our policy to seek to pay out approximately 50% of earnings via the ordinary dividend and this payout ratio is currently exceeded having 'looked through' the short term dilution of the German and Italian acquisitions in prior periods. The ex-dividend date will be 24 March 2016 and the dividend will be paid on 21 April 2016 to shareholders appearing on the register at the close of business on 29 March 2016.

## **CORPORATE**

### **Board appointments**

After 12 years on the Board, Nicholas Ferguson CBE has decided to step down as Chairman and as a Director of the company at the end of April. After joining as a Non-Executive Director in 2004, he was appointed as Chairman in 2012 and has led the Board during a period of strong growth for the company, including the transaction to bring together the Sky businesses across Europe.

The Board has appointed James Murdoch to succeed Mr Ferguson as Chairman. He has been a Director of the company since February 2003 and previously served as Chief Executive from November 2003 to 2007 and as Chairman from 2007 to 2012. Martin Gilbert has been appointed as Deputy Chairman, while Andrew Sukawaty becomes Sky's Senior Independent Director.

### **Sky Deutschland delisting**

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

## Schedule 1 – Group KPI Summary (unaudited)

All figures (000) unless stated	FY 13/14		FY 14/15				FY 15/16	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
UK and Ireland	34,071	34,775	35,535	36,555	37,315	38,036	38,795	39,573
Germany and Austria	6,025	6,164	6,373	6,794	7,006	7,133	7,369	7,714
Italy	8,216	8,227	8,557	8,603	8,633	8,614	8,556	8,579
<b>Total Products</b>	<b>48,312</b>	<b>49,166</b>	<b>50,465</b>	<b>51,952</b>	<b>52,954</b>	<b>53,783</b>	<b>54,720</b>	<b>55,866</b>
UK and Ireland	11,420	11,495	11,546	11,750	11,877	12,001	12,078	12,283
Germany and Austria	3,731	3,813	3,908	4,123	4,225	4,280	4,374	4,494
Italy	4,751	4,725	4,704	4,734	4,746	4,725	4,688	4,700
<b>Retail customers</b>	<b>19,902</b>	<b>20,033</b>	<b>20,158</b>	<b>20,607</b>	<b>20,848</b>	<b>21,006</b>	<b>21,140</b>	<b>21,477</b>
UK and Ireland	3,602	4,041	4,035	4,080	4,077	4,028	4,051	4,063
Germany and Austria	258	213	155	155	154	146	144	145
Italy	-	-	-	-	-	-	-	-
<b>Wholesale customers</b>	<b>3,860</b>	<b>4,254</b>	<b>4,190</b>	<b>4,235</b>	<b>4,231</b>	<b>4,174</b>	<b>4,195</b>	<b>4,208</b>
<b>Total Customers</b>	<b>23,762</b>	<b>24,287</b>	<b>24,348</b>	<b>24,842</b>	<b>25,079</b>	<b>25,180</b>	<b>25,335</b>	<b>25,685</b>
<b>Churn</b>								
UK and Ireland	11.0%	10.9%	10.9%	10.5%	10.1%	9.8%	9.8%	10.2%
Germany and Austria	10.9%	10.4%	9.4%	8.3%	8.5%	8.6%	9.0%	9.8%
Italy	10.9%	10.3%	10.0%	10.0%	9.7%	9.6%	10.0%	9.9%
<b>ARPU</b>								
UK and Ireland	£46	£46	£46	£47	£47	£47	£47	£47
Germany and Austria	€36	€36	€36	€35	€35	€34	€34	€35
Italy	€43	€43	€43	€43	€43	€43	€42	€42

### Page 3 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 December 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 TV.
- ARPU is quarterly annualised, residential and presented as a monthly amount.
- Churn is 12 month rolling and includes residential customers only, unless otherwise stated.

**Enquiries:**

**Analysts/Investors:**

Edward Steel

Tel: 020 7032 2093

Robert Hope

Tel: 020 7032 2654

E-mail: [investor-relations@sky.uk](mailto:investor-relations@sky.uk)

**Media:**

Rowan Pearman

Tel: 020 7032 1589

Eleanor Mills

Tel: 020 7032 6615

E-mail: [SkyPress@sky.uk](mailto:SkyPress@sky.uk)

There will be a presentation for analysts and investors at 9.00 a.m. (GMT) at Allen & Overy, One Bishops Square, London, E1 6AD. Participants should register by contacting Holly Dymock on +44 20 7251 3801 or at [Holly.Dymock@Finsbury.com](mailto:Holly.Dymock@Finsbury.com).

There will be a separate conference call for US analysts and investors at 10.00 a.m. (ET). To register for this please contact Dana Diver at Taylor Rafferty on +1 212 889 4350. Alternatively you may register online at <http://www.invite-taylor-rafferty.com/sky/2016Q2>.

**US Conference Call:**

Conference ID: 2630408

Speaker line: 719-785-1753

Participant dial in: 888-481-2877 or 719-457-2645

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.

## **Related Party Transactions**

Details of transactions with related parties during the six month period to 31 December 2015 are provided in Appendix 1.

## **Principal risks and uncertainties**

A summary of the Group's principal risks and uncertainties is provided in Appendix 3.

## **Responsibility statement**

The Directors confirm that to the best of their knowledge:

- The unaudited condensed consolidated interim financial statements have been prepared in accordance with IAS 34 as adopted by the EU.
- The interim management report includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R of the Disclosure and Transparency Rules.

The names and functions of the Directors of Sky plc can be found on pages 38-39 of the 2015 Annual Report.

By order of the Board  
Jeremy Darroch  
Chief Executive Officer

## **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 Q, 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. These factors include, but are not limited to, those risks that are highlighted in the document in Appendix 3 – "Principal risks and uncertainties".

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.

## Appendix 1 - Condensed Consolidated Interim Financial Statements

**Condensed Consolidated Income Statement** for the half year ended 31 December 2015

	Notes	2015/16 Half year £m	2014/15 Half year £m
<b>Continuing Operations</b>			
<b>Revenue</b>	2	<b>5,718</b>	4,302
Operating expense	2	<b>(5,194)</b>	(3,766)
<b>EBITDA</b>		<b>1,010</b>	811
Depreciation and amortisation		<b>(486)</b>	(275)
<b>Operating profit</b>		<b>524</b>	536
Share of results of joint ventures and associates		<b>3</b>	24
Investment income		<b>5</b>	5
Finance costs		<b>(118)</b>	(145)
Profit on disposal of available-for-sale investments	4	-	492
Profit on disposal of associate	5	-	296
<b>Profit before tax</b>		<b>414</b>	1,208
Taxation		<b>(54)</b>	(144)
<b>Profit for the period from continuing operations</b>		<b>360</b>	1,064
<b>Discontinued Operations</b>			
Profit for the period from discontinued operations	3	-	23
<b>Profit for the period</b>		<b>360</b>	1,087
<b>Profit for the period attributable to:</b>			
Equity shareholders of the parent company		<b>359</b>	1,089
Non-controlling interests		<b>1</b>	(2)
		<b>360</b>	1,087
<b>Adjusted earnings per share from adjusted profit for the period (in pence)</b>			
Basic	6	<b>29.9p</b>	27.1p
Diluted	6	<b>29.7p</b>	26.9p
<b>Earnings per share (in pence)</b>			
Basic			
Continuing operations	6	<b>21.0p</b>	63.6p
Discontinued operations	6	-	1.4p
Total	6	<b>21.0p</b>	65.0p
Diluted			
Continuing operations	6	<b>20.9p</b>	63.1p
Discontinued operations	6	-	1.4p
Total	6	<b>20.9p</b>	64.5p



**Condensed Consolidated Statement of Comprehensive Income** for the half year ended 31 December 2015

	<b>2015/16</b>	2014/15
	<b>Half year</b>	Half year
	<b>£m</b>	£m
<b>Profit for the period</b>	<b>360</b>	1,087
<b>Other comprehensive income</b>		
<b>Amounts recognised directly in equity that may subsequently be recycled to the income statement</b>		
Gain on revaluation of available-for-sale investments	<b>1</b>	36
Gain on cash flow hedges	<b>232</b>	211
Tax on cash flow hedges	<b>(46)</b>	(42)
Exchange differences on translation of foreign operations net of investment hedges	<b>11</b>	(19)
	<b>198</b>	186
<b>Amounts reclassified and reported in the income statement</b>		
Loss on cash flow hedges	<b>(155)</b>	(167)
Tax on cash flow hedges	<b>31</b>	34
Transfer to income statement on disposal of available-for-sale investment	<b>-</b>	(492)
Transfer to income statement on disposal of associate	<b>-</b>	(24)
	<b>(124)</b>	(649)
<b>Other comprehensive income (loss) for the period (net of tax)</b>	<b>74</b>	(463)
<b>Total comprehensive income for the period</b>	<b>434</b>	624
<b>Total comprehensive income for the period attributable to:</b>		
Equity shareholders of the parent company	<b>433</b>	626
Non-controlling interests	<b>1</b>	(2)
	<b>434</b>	624

**Condensed Consolidated Balance Sheet** as at 31 December 2015

	<b>31 December 2015 £m</b>	31 December 2014 £m	30 June 2015 £m
<b>Non-current assets</b>			
Goodwill	<b>4,280</b>	4,414	4,160
Intangible assets	<b>4,046</b>	4,452	4,084
Property, plant and equipment	<b>1,715</b>	1,657	1,646
Investments in joint ventures and associates	<b>127</b>	44	133
Available-for-sale investments	<b>27</b>	31	31
Deferred tax assets	<b>181</b>	151	175
Trade and other receivables	<b>90</b>	20	86
Programme distribution rights	<b>36</b>	31	31
Derivative financial assets	<b>564</b>	310	453
	<b>11,066</b>	11,110	10,799
<b>Current assets</b>			
Inventories	<b>1,792</b>	1,834	847
Trade and other receivables	<b>1,379</b>	1,112	1,096
Current tax assets	-	4	8
Short-term deposits	-	250	1,100
Cash and cash equivalents	<b>1,939</b>	1,177	1,378
Derivative financial assets	<b>108</b>	116	130
Held for sale assets	-	177	-
	<b>5,218</b>	4,670	4,559
<b>Total assets</b>	<b>16,284</b>	15,780	15,358
<b>Current liabilities</b>			
Borrowings	<b>24</b>	491	494
Trade and other payables	<b>4,480</b>	4,192	3,430
Current tax liabilities	<b>154</b>	188	154
Provisions	<b>88</b>	41	103
Derivative financial liabilities	<b>8</b>	11	23
Held for sale liabilities	-	57	-
	<b>4,754</b>	4,980	4,204
<b>Non-current liabilities</b>			
Borrowings	<b>8,052</b>	7,481	7,418
Trade and other payables	<b>99</b>	101	94
Provisions	<b>81</b>	63	77
Derivative financial liabilities	<b>46</b>	44	60
Deferred tax liabilities	<b>258</b>	346	281
	<b>8,536</b>	8,035	7,930
<b>Total liabilities</b>	<b>13,290</b>	13,015	12,134
Share capital	<b>860</b>	860	860
Share premium	<b>2,704</b>	2,704	2,704
Reserves	<b>(571)</b>	(909)	(399)
<b>Total equity attributable to equity shareholders of the parent company</b>	<b>2,993</b>	2,655	3,165
Total equity attributable to non-controlling interests	<b>1</b>	110	59
<b>Total liabilities and equity</b>	<b>16,284</b>	15,780	15,358

**Condensed Consolidated Cash Flow Statement** for the half year ended 31 December 2015

	Notes	2015/16 Half year £m	2014/15 Half year £m
<b>Continuing Operations</b>			
<b>Cash flows from operating activities</b>			
Cash generated from operations	8	897	919
Interest received		6	6
Taxation paid		(94)	(106)
<b>Net cash from operating activities</b>		<b>809</b>	<b>819</b>
<b>Cash flows from investing activities</b>			
Dividends received from joint ventures and associates		11	15
Net funding to joint ventures and associates		(3)	(4)
Proceeds on disposal of investments		6	546
Purchase of property, plant and equipment		(218)	(171)
Purchase of intangible assets		(177)	(169)
Purchase of subsidiaries (net of cash and cash equivalents purchased)		(21)	(6,316)
Purchase of available-for-sale investments		(6)	(84)
Decrease in short-term deposits		1,100	45
<b>Net cash from (used in) investing activities</b>		<b>692</b>	<b>(6,138)</b>
<b>Cash flows from financing activities</b>			
Net proceeds from borrowing		354	4,917
Repayment of borrowing (see note 9)		(432)	(105)
Repayment of obligations under finance leases		(7)	(3)
Proceeds from disposal of shares in Employee Share Ownership Plan ("ESOP")		1	1
Purchase of own shares for ESOP		(200)	(12)
Issue of own shares		-	1,346
Interest paid		(146)	(153)
Purchase of non-controlling interests		(170)	(228)
Dividends paid to shareholders of the parent		(350)	(340)
<b>Net cash (used in) from financing activities</b>		<b>(950)</b>	<b>5,423</b>
Effect of foreign exchange rate movements		10	(36)
<b>Net increase in cash and cash equivalents from continuing operations</b>		<b>561</b>	<b>68</b>
Cash generated from discontinued operations		-	42
Cash and cash equivalents at the beginning of the period		1,378	1,082
<b>Cash and cash equivalents at the end of the period</b>		<b>1,939</b>	<b>1,192</b>
Cash and cash equivalents included within held for sale assets		-	(15)
		<b>1,939</b>	<b>1,177</b>

Condensed Consolidated Statement of Changes in Equity for the half year ended 31 December 2015

	Attributable to equity shareholders of the parent company									
	Share capital £m	Share premium £m	ESOP reserve £m	Hedging reserve £m	Available - for-sale reserve £m	Other reserves £m	Retained earnings £m	Total shareholders' equity £m	Non-controlling interests £m	Total equity £m
<b>At 30 June 2014</b>	<b>781</b>	<b>1,437</b>	<b>(145)</b>	<b>(20)</b>	<b>455</b>	<b>455</b>	<b>(1,891)</b>	<b>1,072</b>	<b>-</b>	<b>1,072</b>
Profit for the period	-	-	-	-	-	-	1,089	1,089	(2)	1,087
Exchange differences on translation of foreign operations	-	-	-	-	-	(19)	-	(19)	-	(19)
Revaluation of available-for-sale investments	-	-	-	-	36	-	-	36	-	36
Transfer to income statement on disposal of associate	-	-	-	-	-	(24)	-	(24)	-	(24)
Transfer to income statement on disposal of available-for-sale investment	-	-	-	-	(492)	-	-	(492)	-	(492)
Recognition and transfer of cash flow hedges	-	-	-	44	-	-	-	44	-	44
Tax on items taken directly to equity	-	-	-	(8)	-	-	-	(8)	-	(8)
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>36</b>	<b>(456)</b>	<b>(43)</b>	<b>1,089</b>	<b>626</b>	<b>(2)</b>	<b>624</b>
Share-based payment	-	-	5	-	-	-	31	36	-	36
Issue of own equity shares	79	1,267	-	-	-	-	-	1,346	-	1,346
Non-controlling interests arising on purchase of subsidiaries	-	-	-	-	-	-	-	-	193	193
Tax on items taken directly to equity	-	-	-	-	-	-	3	3	-	3
Share buy-back programme: - Reversal of financial liability for close period purchases	-	-	-	-	-	-	59	59	-	59
Dividends	-	-	-	-	-	-	(340)	(340)	-	(340)
Purchase of non-controlling interests	-	-	-	-	-	-	(147)	(147)	(81)	(228)
<b>At 31 December 2014</b>	<b>860</b>	<b>2,704</b>	<b>(140)</b>	<b>16</b>	<b>(1)</b>	<b>412</b>	<b>(1,196)</b>	<b>2,655</b>	<b>110</b>	<b>2,765</b>
Profit for the period	-	-	-	-	-	-	868	868	(3)	865
Exchange differences on translation of foreign operations net of net investment hedges	-	-	-	-	-	(181)	-	(181)	(13)	(194)
Transfer to income statement on disposal of associate	-	-	-	-	-	(14)	-	(14)	-	(14)
Transfer on disposal of subsidiaries	-	-	-	-	-	(97)	97	-	-	-
Recognition and transfer of cash flow hedges	-	-	-	58	-	-	-	58	-	58
Tax on items taken directly to equity	-	-	-	(12)	-	-	-	(12)	-	(12)
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>46</b>	<b>-</b>	<b>(292)</b>	<b>965</b>	<b>719</b>	<b>(16)</b>	<b>703</b>
Share-based payment	-	-	15	-	-	-	38	53	-	53
Non-controlling interests arising on purchase of subsidiaries	-	-	-	-	-	-	-	-	(2)	(2)
Tax on items taken directly to equity	-	-	-	-	-	-	14	14	-	14
Dividends	-	-	-	-	-	-	(209)	(209)	-	(209)
Purchase of non-controlling interests	-	-	-	-	-	-	(67)	(67)	(33)	(100)
<b>At 30 June 2015</b>	<b>860</b>	<b>2,704</b>	<b>(125)</b>	<b>62</b>	<b>(1)</b>	<b>120</b>	<b>(455)</b>	<b>3,165</b>	<b>59</b>	<b>3,224</b>
Profit for the period	-	-	-	-	-	-	359	359	1	360
Exchange differences on translation of foreign operations net of net investment hedges	-	-	-	-	-	11	-	11	-	11
Revaluation of available-for-sale investments	-	-	-	-	1	-	-	1	-	1
Recognition and transfer of cash flow hedges	-	-	-	77	-	-	-	77	-	77
Tax on items taken directly to equity	-	-	-	(15)	-	-	-	(15)	-	(15)
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>62</b>	<b>1</b>	<b>11</b>	<b>359</b>	<b>433</b>	<b>1</b>	<b>434</b>
Share-based payment	-	-	(20)	-	-	-	(131)	(151)	-	(151)
Non-controlling interests arising on purchase of subsidiaries	-	-	-	-	-	-	-	-	1	1
Tax on items taken directly to equity	-	-	-	-	-	-	6	6	-	6
Dividends	-	-	-	-	-	-	(350)	(350)	-	(350)
Purchase of non-controlling interests	-	-	-	-	-	-	(110)	(110)	(60)	(170)
<b>At 31 December 2015</b>	<b>860</b>	<b>2,704</b>	<b>(145)</b>	<b>124</b>	<b>-</b>	<b>131</b>	<b>(681)</b>	<b>2,993</b>	<b>1</b>	<b>2,994</b>

## **Notes to the Condensed Consolidated Interim Financial Statements**

### **1 Basis of preparation**

The unaudited condensed consolidated interim financial statements for the half year ended 31 December 2015 have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") as adopted for use in the European Union and issued by the International Accounting Standards Board. The condensed consolidated interim financial statements have been prepared on a going concern basis and have been prepared using accounting policies and methods of computation consistent with those applied in the financial statements for the year ended 30 June 2015, except for new accounting pronouncements which have become effective this period, none of which had a material impact on the Group's results or financial position.

The condensed consolidated interim financial statements are presented on a condensed basis as permitted by IAS 34 and therefore do not include all disclosures that would otherwise be required in a full set of financial statements and should be read in conjunction with the 2015 Annual Report. The condensed consolidated interim financial statements do not constitute statutory accounts as defined in Section 434 of the Companies Act 2006 and are unaudited for all periods presented. The financial information for the full year ended 30 June 2015 is extracted from the financial statements for that year. A copy of the statutory accounts has been delivered to the Registrar of Companies. The auditor's report on those financial statements was unqualified and did not contain any statement under section 498(2) and (3) of the Companies Act 2006.

The condensed consolidated interim financial statements are based on the 26 weeks ended 27 December 2015 (fiscal year 2015: 26 weeks ended 28 December 2014). For convenience purposes, the Group continues to date its consolidated financial statements as at 30 June and its condensed consolidated interim financial statements as at 31 December.

### **Going Concern**

The Group has updated the analysis which supported its assessment of going concern set out on page 77 of the 2015 Annual Report, and continues to believe that its existing external financing, together with internally generated cash inflows, will continue to provide sufficient sources of liquidity to fund its current operations, including its contractual obligations and commercial commitments, its approved capital expenditure requirements and any dividends proposed for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the condensed consolidated interim financial statements.

## 2 Operating Segments

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

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

**Segmental income statement** for the half year ended 31 December 2015

	UK & Ireland £m	Italy £m	Germany & Austria £m	Adjusting Items & Eliminations £m	Statutory Group Total £m
<b>Continuing Operations</b>					
Subscription	3,413	838	629	-	4,880
Transactional	68	15	9	-	92
Programme and Channel Sales	294	6	9	-	309
Advertising	255	80	24	-	359
Other	42	14	22	-	78
<b>Revenue</b>	<b>4,072</b>	<b>953</b>	<b>693</b>	<b>-</b>	<b>5,718</b>
Inter-segment revenue	-	-	-	-	-
<b>Revenue from external customers</b>	<b>4,072</b>	<b>953</b>	<b>693</b>	<b>-</b>	<b>5,718</b>
Programming	(1,458)	(548)	(409)	(21)	(2,436)
Direct network costs	(448)	-	-	-	(448)
Sales, general and administration	(1,410)	(380)	(318)	(202)	(2,310)
<b>Operating expense</b>	<b>(3,316)</b>	<b>(928)</b>	<b>(727)</b>	<b>(223)</b>	<b>(5,194)</b>
<b>EBITDA</b>	950	92	7	(39)	1,010
Depreciation and amortisation	(194)	(67)	(41)	(184)	(486)
<b>Operating profit (loss)</b>	<b>756</b>	<b>25</b>	<b>(34)</b>	<b>(223)</b>	<b>524</b>
Share of results of joint ventures and associates					3
Investment income					5
Finance costs					(118)
<b>Profit before tax</b>					<b>414</b>

**Segmental income statement** for the half year ended 31 December 2014

	<b>Results for full 6 months</b>				<b>Italy and Germany &amp; Austria pre- acquisition £m</b>	<b>Statutory Group Total £m</b>
	<b>UK &amp; Ireland £m</b>	<b>Italy £m</b>	<b>Germany &amp; Austria £m</b>	<b>Adjusting Items &amp; Eliminations £m</b>		
<b>Continuing Operations</b>						
Subscription	3,251	962	629	-	(1,184)	3,658
Transactional	52	18	9	-	(19)	60
Programme and Channel Sales	244	9	11	-	(10)	254
Advertising	243	76	23	-	(68)	274
Other	48	14	22	(2)	(26)	56
<b>Revenue</b>	<b>3,838</b>	<b>1,079</b>	<b>694</b>	<b>(2)</b>	<b>(1,307)</b>	<b>4,302</b>
Inter-segment revenue	(7)	-	-	2	5	-
<b>Revenue from external customers</b>	<b>3,831</b>	<b>1,079</b>	<b>694</b>	<b>-</b>	<b>(1,302)</b>	<b>4,302</b>
Programming	(1,402)	(627)	(378)	-	725	(1,682)
Direct network costs	(419)	-	-	-	-	(419)
Sales, general and administration	(1,367)	(414)	(329)	(108)	553	(1,665)
<b>Operating expense</b>	<b>(3,188)</b>	<b>(1,041)</b>	<b>(707)</b>	<b>(108)</b>	<b>1,278</b>	<b>(3,766)</b>
<b>EBITDA</b>	<b>839</b>	<b>125</b>	<b>29</b>	<b>(56)</b>	<b>(126)</b>	<b>811</b>
Depreciation and amortisation	(189)	(87)	(42)	(54)	97	(275)
<b>Operating profit (loss)</b>	<b>650</b>	<b>38</b>	<b>(13)</b>	<b>(110)</b>	<b>(29)</b>	<b>536</b>
Share of results of joint ventures and associates						24
Investment income						5
Finance costs						(145)
Profit on disposal of available-for-sale investments						492
Profit on disposal of associate						296
<b>Profit before tax</b>						<b>1,208</b>

Results for each segment are presented on an adjusted basis. A reconciliation of statutory to adjusted results is shown in note 6 which also includes a description of the adjusting items. Transactions between segments are based on estimated market prices.

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

### 3 Discontinued operations

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

Sky Bet represented a separate major line of business for the Group. As a result, its operations have been treated as discontinued for the six months ended 31 December 2014. A single amount is shown on the face of the condensed consolidated income statement comprising the post-tax result of discontinued operations. The assets and liabilities of Sky Bet have been classified as held for sale in the condensed consolidated balance sheet at 31 December 2014, but were de-recognised as at 30 June 2015.

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

	2014/15 Half year £m
<b>Revenue</b>	111
Operating expense	(82)
<b>Operating profit</b>	29
<b>Profit before tax</b>	29
Attributable tax expense	(6)
<b>Profit for the period from discontinued operations</b>	23

During the prior period, Sky Bet contributed £43 million to the Group's net operating cash flows, and paid £1 million in respect of investing activities.

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

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

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

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

### 5 Profit on disposal of associate

On 12 November 2014, the Group transferred a shareholding of 21% in NGC Network International LLC and a shareholding of 21% in NGC Network Latin America LLC to Twenty-First Century Fox, Inc. for an aggregate consideration of £410 million as part of the purchase of Sky Italia. A pre-tax profit of £296 million was realised on disposal.



## 6 Earnings per share

The movement in the number of ordinary shares outstanding for the period was:

	<b>2015/16 Half year Millions of shares</b>	2014/15 Half year Millions of shares
Beginning of period	1,719	1,563
Issue of own equity shares <sup>(i)</sup>	-	156
<b>End of period</b>	<b>1,719</b>	<b>1,719</b>

(i) On 25 July 2014 the Company announced the placing of 156,132,213 new ordinary shares representing approximately 9.99% of existing issued share capital, for total gross proceeds of £1,358 million.

The weighted average number of ordinary shares for the period was:

	<b>2015/16 Half year Millions of shares</b>	2014/15 Half year Millions of shares
Ordinary shares	1,719	1,693
ESOP trust ordinary shares	(13)	(17)
<b>Basic shares</b>	<b>1,706</b>	<b>1,676</b>
Dilutive ordinary shares from share options	12	14
<b>Diluted shares</b>	<b>1,718</b>	<b>1,690</b>

Basic and diluted earnings per share are calculated by dividing profit attributable to equity shareholders of the parent company for the period into the weighted average number of shares for the period. In order to provide a measure of underlying performance, management has chosen to present an adjusted profit for the period which excludes items that may distort comparability. Such items arise from events or transactions that fall within the ordinary activities of the Group but which management believes should be separately identified to help explain underlying performance.

	<b>2015/16 Half year £m</b>	2014/15 Half year £m
Profit for the period from continuing operations	360	1,064
(Profit) loss for the period attributable to non-controlling interests	(1)	2
<b>Profit for the period from continuing operations attributable to equity shareholders of the parent company</b>	<b>359</b>	<b>1,066</b>
Profit for the period from discontinued operations	-	23
<b>Profit for the period attributable to equity shareholders of the parent company</b>	<b>359</b>	<b>1,089</b>

	<b>2015/16 Half year £m</b>	2014/15 Half year £m
<b>Reconciliation from profit for the period from continuing operations attributable to equity shareholders of the parent company to adjusted profit for the period attributable to equity shareholders of the parent company</b>		
Profit for the period from continuing operations attributable to equity shareholders of the parent company	359	1,066
Costs relating to corporate restructuring and efficiency programmes	25	-
Costs relating to the integration of Sky Italia and Sky Deutschland in the enlarged Group	24	9
Advisory and transaction fees and finance costs incurred on the purchase of Sky Italia and Sky Deutschland	4	95
Amortisation of acquired intangible assets	175	54
Profit on disposal of available-for-sale investments (see note 4)	-	(492)
Profit on disposal of associate (see note 5)	-	(296)
Remeasurement of all derivative financial instruments not qualifying for hedge accounting and hedge ineffectiveness	7	7
Tax effect of above items and tax adjusting items	(84)	12
<b>Adjusted profit for the period attributable to equity shareholders of the parent company</b>	<b>510</b>	<b>455</b>

## 7 Dividends

	2015/16 Half year £m	2014/15 Half year £m	2014/15 Full year £m
<b>Dividends declared and paid during the period</b>			
2014 Final dividend paid: 20.00p per ordinary share	-	340	340
2015 Interim dividend paid: 12.30p per ordinary share	-	-	209
2015 Final dividend paid: 20.50p per ordinary share	350	-	-
	<b>350</b>	340	549

The 2016 interim dividend is 12.55 pence per ordinary share being £214 million. The dividend was not declared at the balance sheet date and is therefore not recognised as a liability as at 31 December 2015.

## 8 Notes to the Condensed Consolidated Cash Flow Statement

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

	2015/16 Half year £m	2014/15 Half year £m
<b>Continuing Operations</b>		
<b>Profit before taxation</b>	<b>414</b>	1,208
Depreciation and impairment of property, plant and equipment	180	123
Amortisation and impairment of intangible assets	306	152
Share-based payment expense	47	46
Net finance costs	113	140
Profit on disposal of available-for-sale investments	-	(492)
Profit on disposal of associate	-	(296)
Share of results of joint ventures and associates	(3)	(24)
	<b>1,057</b>	857
(Increase) decrease in trade and other receivables	(234)	27
Increase in inventories	(923)	(309)
Increase in trade and other payables	1,018	381
Decrease in provisions	(13)	(19)
Decrease in derivative financial instruments	(8)	(18)
<b>Cash generated from operations</b>	<b>897</b>	919

## 9 Other matters

### a) Guarantees

Certain subsidiaries of the Company have agreed to provide additional funding to several of their investments in limited and unlimited companies and partnerships, in accordance with funding agreements. Payment of this additional funding would be required if requested by the investees in accordance with the funding agreements. The maximum potential amount of future payments which may be required to be made by the subsidiaries of the Company to their investments, in both limited and unlimited companies and partnerships under the undertakings and additional funding agreements, is £7 million (2015: half year: £18 million; full year: £8 million).

Sky plc provided a back-to-back guarantee in favour of Twenty-First Century Fox, Inc. of up to half the annual payment obligations of Sky Deutschland Fernsehen GmbH & Co. KG under the 2013/17 Bundesliga agreement up to September 2015. It has also provided back-to-back guarantees in favour of Twenty-First Century Fox, Inc. in relation to UEFA Europa League and other programming obligations of Sky Italia Srl.

### b) Ofcom determination

During the year ended 30 June 2013, the Group received a credit note of £32 million from BT following an Ofcom determination which required BT to repay monies to Sky for overcharged Ethernet services (backhaul) between 2006/07 and 2009/10. Ofcom's findings on the amount of the overcharge were mostly upheld by the Competition Appeal Tribunal ("CAT") in August 2014. BT and Talk Talk have been granted permission to appeal to the Court of Appeal and the hearing is expected towards the end of 2016. The CAT also directed Ofcom to determine the amount of interest payable by BT in respect of the overcharge. Ofcom has completed its assessment of the appropriate level of interest to award each party and shared this with the parties in August 2015 but Ofcom has not issued a final decision (ordering payment of interest) pending the outcome of BT's appeal.

## 9 Other matters (continued)

### c) Redemption and Issue of Senior Unsecured Notes

On 15 October 2015, the Group redeemed in full its \$750 million Senior Unsecured Notes, which bore interest at 5.625%. €500 million of 2.250% Senior Unsecured Notes repayable in 2025 were issued on 17 November 2015. At the time of issuing the euro proceeds were swapped into pound sterling (£356 million). After hedging, 100% of the resulting liability was subject to fixed interest at an average rate of 3.72%.

### d) Sky Deutschland delisting

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

## 10 Transactions with related parties and major shareholders

### a) Entities with joint control or significant influence

The Group conducts business transactions with companies that are part of the Twenty-First Century Fox, Inc. ("21st Century Fox") group, a major shareholder.

Transactions with related parties and amounts outstanding in relation to those transactions and with related parties at 31 December are as follows:

	2015/16 Half year £m	2014/15 Half year £m	2014/15 Full year £m
Supply of goods or services by the Group	22	23	45
Purchases of goods or services by the Group	(174)	(101)	(275)
Amounts owed to the Group	21	31	26
Amounts owed by the Group	(213)	(188)	(180)

At 31 December 2015 the Group had expenditure commitments of £499 million (2015: half year: £830 million; full year: £590 million) with 21st Century Fox companies, all of which related to minimum television programming rights commitments.

#### Goods and services supplied to 21st Century Fox

During the current period, the Group supplied programming, airtime, transmission and marketing services to 21st Century Fox.

#### Purchases of goods and services and certain other relationships with 21st Century Fox

During the current period, the Group purchased programming from 21st Century Fox companies.

On 25 July 2014 the Company announced the placing of 156,132,213 new ordinary shares representing approximately 9.99% of existing issued share capital. 21st Century Fox subscribed for 61,106,496 of these shares so as to maintain its existing percentage shareholding in the Company following the placing.

On 12 November 2014, the Group acquired 100% of Sky Italia Srl and 57.4% of Sky Deutschland GmbH from 21st Century Fox. In addition, the Group repaid the loan that Sky Deutschland GmbH had outstanding with 21st Century Fox of £105 million. In connection with this, Sky disposed of its 21% stake in the National Geographic channel to 21st Century Fox on the same date. For further details, see note 5.

There is an agreement between 21st Century Fox and the Group pursuant to which it has been agreed that, for so long as 21st Century Fox directly or indirectly holds an interest of 30% or more in the Group, 21st Century Fox will not engage in the business of satellite broadcasting in the UK or Ireland.

### b) Joint ventures and associates

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

	2015/16 Half year £m	2014/15 Half year £m	2014/15 Full year £m
Supply of services by the Group	39	5	26
Purchases of goods or services by the Group	(25)	(25)	(55)
Amounts owed by joint ventures and associates to the Group	88	7	89
Amounts owed to joint ventures and associates by the Group	(9)	(15)	(16)

Services supplied are primarily the provision of transponder capacity, marketing, airtime sales and support services. Purchases represent fees payable for channel carriage. Amounts owed by joint ventures and associates include £70 million (2015: half year: £1 million; full year: £70 million) relating to loan funding. The maximum amount of loan funding outstanding in total from joint ventures and associates during the period was £70 million (2015: half year: £1 million; full year: £70 million).

## 10 Transactions with related parties and major shareholders (continued)

### b) Joint ventures and associates (continued)

The Group took out a number of forward exchange contracts with counterparty banks during the period on behalf of the joint venture AETN UK. On the same dates as these forward contracts were entered into, the Group entered into equal and opposite contracts with AETN UK in respect of these forward contracts. Consequently, the Group was not exposed to any of the net gains or losses on these forward contracts.

The face value of forward exchange contracts with the joint venture AETN UK that had not matured as at 31 December 2015 was £24 million (2015: half year: £14 million; full year: £12 million).

During the current period, US\$19 million (2015: half year: nil) was received from AETN UK upon maturity of foreign exchange contracts and \$19 million (2015: half year: US\$1 million) was paid to AETN UK upon maturity of forward exchange contracts.

During the current period, £12 million (2015: half year: less than £1 million) was received from AETN UK upon maturity of forward exchange contracts and £14 million (2015: half year: less than £1 million) was paid to AETN UK upon maturity of forward exchange contracts.

During the current period, €1 million (2015: half year: €2 million) was received from AETN UK upon maturity of forward exchange contracts.

At 31 December 2015 the Group had minimum expenditure commitments of £3 million (2015: half year: £2 million; full year: £1 million) with its joint ventures and associates.

### c) Key management

The Group has a related party relationship with the Directors of the Company. At 31 December 2015, there were 12 (2015: half year: 14; full year: 14) members of key management, all of whom were Directors of the Company. Key management compensation is provided below:

	<b>2015/16</b> <b>Half year</b> <b>£m</b>	2014/15 Half year £m	2014/15 Full year £m
Short-term employee benefits	<b>4</b>	3	6
Share-based payments	<b>4</b>	4	8
	<b>8</b>	7	14

Post-employment benefits were less than £1 million in each period.

## 11 Financial instruments

The following table categorises the Group's financial instruments which are held at fair value into one of three levels to reflect the degree to which observable inputs are used in determining their fair values:

	<b>Level 1</b>		<b>Level 2</b>		<b>Level 3</b>	
	<b>31</b> <b>December</b> <b>2015</b> <b>£m</b>	30 June 2015 £m	<b>31</b> <b>December</b> <b>2015</b> <b>£m</b>	30 June 2015 £m	<b>31</b> <b>December</b> <b>2015</b> <b>£m</b>	30 June 2015 £m
<b>Financial assets</b>						
<i>Available-for-sale financial assets</i>						
Other investments	<b>1</b>	3	-	-	<b>26</b>	28
<i>Financial assets at fair value through profit or loss</i>						
Interest rate swaps	-	-	<b>51</b>	62	-	-
Cross-currency swaps	-	-	<b>406</b>	356	-	-
Forward foreign exchange contracts	-	-	<b>215</b>	165	-	-
<b>Total</b>	<b>1</b>	3	<b>672</b>	583	<b>26</b>	28
<b>Financial liabilities</b>						
<i>Financial liabilities at fair value through profit or loss</i>						
Interest rate swaps	-	-	<b>(3)</b>	-	-	-
Cross-currency swaps	-	-	<b>(38)</b>	(40)	-	-
Forward foreign exchange contracts	-	-	<b>(13)</b>	(43)	-	-
<b>Total</b>	-	-	<b>(54)</b>	(83)	-	-

Level 1 fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities, including shares in listed entities.

## **11 Financial instruments (continued)**

Level 2 fair values measured using inputs, other than quoted prices included within Level 1, that are observable for the asset or liability either directly or indirectly. Derivative financial instrument fair values are present values determined from future cash flows discounted at rates derived from market source data.

Level 3 fair values measured using inputs for the asset or liability that are not based on observable market data. Certain of the Group's unlisted available-for-sale financial assets are held at fair value and are categorised as Level 3 in the fair value hierarchy.

## **INDEPENDENT REVIEW REPORT TO SKY PLC**

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 31 December 2015 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated balance sheet, the condensed consolidated cash flow statement, the condensed consolidated statement of changes in equity and related notes 1 to 11. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Company those matters we are required to state to it in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

### **Directors' responsibilities**

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting," as adopted by the European Union.

### **Our responsibility**

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

### **Scope of review**

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 31 December 2015 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP  
Chartered Accountants and Statutory Auditor  
London, United Kingdom  
28 January 2016

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

## Appendix 2 – Non-GAAP measures

### Reconciliation of cash generated from operations to adjusted free cash flow for the half year ended 31 December 2015

	2015/16 Half year £m	2014/15 Half year £m
<b>Continuing Operations</b>		
<b>Cash generated from operations</b>	<b>897</b>	919
<i>Adjusting items:</i>		
Cash paid relating to corporate restructuring and efficiency programmes	<b>25</b>	-
Cash paid relating to the integration of Sky Italia and Sky Deutschland in the enlarged Group	<b>8</b>	2
Cash paid relating to advisory and transaction fees incurred on the purchase of Sky Italia and Sky Deutschland	-	14
Cash paid relating to integration of O2 consumer broadband and fixed-line telephony business	-	10
Cash paid under provisions recognised in prior periods	-	19
<b>Adjusted cash generated from operations</b>	<b>930</b>	964
Interest received	<b>6</b>	6
Taxation paid	<b>(94)</b>	(106)
Dividends received from joint ventures and associates	<b>11</b>	15
Net funding to joint ventures and associates	<b>(3)</b>	(4)
Purchase of property, plant and equipment	<b>(218)</b>	(171)
Purchase of intangible assets	<b>(177)</b>	(169)
Interest paid	<b>(146)</b>	(153)
Cash paid relating to finance costs incurred on the purchase of Sky Italia and Sky Deutschland	-	81
Tax effect of adjusting items	<b>(26)</b>	(13)
<b>Adjusted free cash flow</b>	<b>283</b>	450

### Analysis of movements in net debt

	As at 1 January 2015 £m	Cash movements £m	Non-cash movements £m	As at 31 December 2015 £m
Current borrowings	491	(500)	33	24
Non-current borrowings	7,481	640	(69)	8,052
Borrowings-related derivative financial instruments	(277)	57	(196)	(416)
<b>Gross debt</b>	<b>7,695</b>	<b>197</b>	<b>(232)</b>	<b>7,660</b>
Cash and cash equivalents	(1,177)	(762)	-	(1,939)
Short-term deposits	(250)	250	-	-
<b>Net debt</b>	<b>6,268</b>	<b>(315)</b>	<b>(232)</b>	<b>5,721</b>

**Consolidated income statement - reconciliation of statutory and adjusted numbers**

		2015/16		
		Statutory	Adjusting	Adjusted
	Notes	£m	Items	£m
		£m	£m	£m
<b>Continuing Operations</b>				
<b>Revenue</b>				
Subscription		4,880	-	4,880
Transactional		92	-	92
Programming and Channel Sales		309	-	309
Advertising		359	-	359
Other		78	-	78
		<b>5,718</b>	<b>-</b>	<b>5,718</b>
<b>Operating expense</b>				
Programming	A	(2,436)	21	(2,415)
Direct network costs		(448)	-	(448)
Sales, general and administration	A	(2,310)	202	(2,108)
		<b>(5,194)</b>	<b>223</b>	<b>(4,971)</b>
<b>EBITDA</b>		<b>1,010</b>	<b>39</b>	<b>1,049</b>
<b>Operating profit</b>		<b>524</b>	<b>223</b>	<b>747</b>
Share of results of joint ventures and associates	A	3	5	8
Investment income		5	-	5
Finance costs	B	(118)	7	(111)
<b>Profit before tax</b>		<b>414</b>	<b>235</b>	<b>649</b>
Taxation	C	(54)	(84)	(138)
<b>Profit for the period from continuing operations</b>		<b>360</b>	<b>151</b>	<b>511</b>
Profit for the period attributable to non-controlling interests		(1)	-	(1)
<b>Profit for the period from continuing operations attributable to equity shareholders of the parent company</b>		<b>359</b>	<b>151</b>	<b>510</b>
<b>Earnings per share from continuing operations (basic)</b>		<b>21.0p</b>	<b>8.9p</b>	<b>29.9p</b>

Notes: explanation of adjusting items for the period ended 31 December 2015

- A. Costs of £25 million relating to corporate restructuring and efficiency programmes (including amortisation of £7 million in relation to associated intangibles), costs of £24 million relating to the integration of Sky Italia and Sky Deutschland in the enlarged Group (including amortisation of £7 million in relation to associated intangibles), advisory and transaction fees of £4 million incurred on the purchase of Sky Italia and Sky Deutschland, and amortisation of acquired intangible assets of £175 million.
- B. Finance costs of £7 million relating to the remeasurement of all derivative financial instruments not qualifying for hedge accounting and hedge ineffectiveness.
- C. Tax effect of above adjusting items and tax adjusting items.



**Consolidated income statement - reconciliation of statutory and adjusted numbers**

		2014/15				
		Adjusted				
	Notes	Statutory £m	Adjusting Items £m	Excluding adjusting items £m	Italy and Germany & Austria pre- acquisition £m	Like for Like £m
<b>Continuing Operations</b>						
<b>Revenue</b>						
Subscription		3,658	-	3,658	1,184	4,842
Transactional		60	-	60	19	79
Programming and Channel Sales		254	-	254	10	264
Advertising		274	-	274	68	342
Other		56	-	56	21	77
		<b>4,302</b>	<b>-</b>	<b>4,302</b>	<b>1,302</b>	<b>5,604</b>
<b>Operating expense</b>						
Programming		(1,682)	-	(1,682)	(725)	(2,407)
Direct network costs		(419)	-	(419)	-	(419)
Sales, general and administration	A	(1,665)	110	(1,555)	(548)	(2,103)
		<b>(3,766)</b>	<b>110</b>	<b>(3,656)</b>	<b>(1,273)</b>	<b>(4,929)</b>
<b>EBITDA</b>		<b>811</b>	<b>56</b>	<b>867</b>	<b>126</b>	<b>993</b>
<b>Operating profit</b>		<b>536</b>	<b>110</b>	<b>646</b>	<b>29</b>	<b>675</b>
Share of results of joint ventures and associates		24	-	24		
Investment income		5	-	5		
Finance costs	B	(145)	55	(90)		
Profit on disposal of available-for-sale investments	C	492	(492)	-		
Profit on disposal of associate	D	296	(296)	-		
<b>Profit before tax</b>		<b>1,208</b>	<b>(623)</b>	<b>585</b>		
Taxation	E	(144)	12	(132)		
<b>Profit for the period from continuing operations</b>		<b>1,064</b>	<b>(611)</b>	<b>453</b>		
Loss for the period attributable to non-controlling interests		2	-	2		
<b>Profit for the period from continuing operations attributable to equity shareholders of the parent company</b>		<b>1,066</b>	<b>(611)</b>	<b>455</b>		
<b>Earnings per share from continuing operations (basic)</b>		<b>63.6p</b>	<b>(36.5p)</b>	<b>27.1p</b>		

Notes: explanation of adjusting items for the period ended 31 December 2014

- A. Advisory and transaction fees including, inter alia, financial advisory costs, corporate legal advice, due diligence reporting, assurance services and tax advice of £47 million incurred on the purchase of Sky Italia and Sky Deutschland, costs of £9 million relating to the integration of Sky Italia and Sky Deutschland and the achievement of synergies in the enlarged Group, and amortisation of acquired intangible assets of £54 million.
- B. Finance costs of £48 million incurred in connection with £6.6 billion of firm underwritten debt facilities relating to the purchase of Sky Italia and Sky Deutschland and costs of £7 million relating to the remeasurement of all derivative financial instruments not qualifying for hedge accounting and hedge ineffectiveness.
- C. Profit on the sale of shareholding in ITV and gain on equity interest in Sky Deutschland held prior to the acquisition.
- D. Profit on disposal of a shareholding of 21% in NGC Network International LLC and a shareholding of 21% in NGC Network Latin America LLC.
- E. Tax effect of adjusting items.

### Appendix 3 - Principal risks and uncertainties

The Board continually assesses and monitors the key risks of the business. The key risks that could affect the Group's long-term performance, and the factors which mitigate these risks, are set out in more detail on pages 32-35 of the 2015 Annual Report. Other than where indicated below, the Board does not consider that the following principal risks and uncertainties have changed. Additional risks and uncertainties of which we are not aware or which we currently believe are immaterial may also adversely affect our business, financial condition, prospects, liquidity or results of operations.

- **Market and competition:** The Group operates in a highly competitive environment and faces competition from a broad range of organisations. Technological developments also have the ability to create new forms of quickly evolving competition. A failure to develop the Group's product proposition in line with changing market dynamics and expectations could erode the Group's competitive position. Great content is central to Sky's product proposition and increased competition could impact the Group's ability to acquire content that its customers want on commercially attractive terms. Economic conditions have been challenging in recent years across the territories in which the Group operates and the future remains uncertain. A significant economic decline in any of those territories could impact on the Group's ability to continue to attract and retain customers in that territory.
- **Regulatory breach and change:** The Group is subject to regulation primarily under Austrian, German, Irish, Italian, UK and European Union legislation. The Group is currently, and may be in the future, subject to proceedings, and/or investigation and enquiries, from regulatory authorities. The Group's ability to operate or compete effectively could be adversely affected by the outcome of investigations or by the introduction of new laws, policies or regulations, changes in the interpretation or application of existing laws, policies and regulations, or failure to obtain required regulatory approvals or licences. Below is an update of the ongoing investigations and reviews of regulatory and competition matters involving the Group listed at pages 36-37 of the 2015 Annual Report to the extent that there have been developments since the 2015 Annual Report.
  - **European Commission investigation:** On 13 January 2014, the European Commission (the 'EC') opened a formal antitrust investigation into cross-border provision of pay TV services in the European Union. The EC is examining certain provisions relating to territorial protection in licence agreements between major US film studios (Twentieth Century Fox, Warner Bros., Sony Pictures, NBCUniversal, Paramount and Disney) and key European pay TV broadcasters (Sky UK, Canal Plus, Sky Italia, Sky Deutschland and DTS, operating under the Canal Plus brand in Spain). On 23 July 2015, the EC adopted a Statement of Objections ('SO'), setting out its preliminary finding that there has been an infringement of EU Competition law involving Sky UK. Sky UK is responding to the concerns in the SO. The EC has not yet reached its final views and the Group is not yet able to determine the outcome of the investigation or its financial impact, however, should the outcome be adverse to Sky UK, this may have a significant effect on the financial position or profitability of the Group.
  - **Wholesale must-offer ('WMO') review:** On 19 November 2015, Ofcom announced its decision to remove the WMO Obligations which were imposed on the Group in 2010 for the channels Sky Sports 1, Sky Sports 2, Sky Sports 1 HD and Sky Sports 2 HD. In its statement concluding its review of the WMO Obligations, Ofcom stated that it does not consider it appropriate to impose regulation in relation to the supply of channels containing key sports content at this time. In Ofcom's view, whilst there may be concerns in principle given Sky's strong position in the market, in practice the evidence shows that Sky is supplying its sports channels widely and Ofcom has not seen evidence to show that the terms of this supply amount to practices prejudicial to fair and effective competition which warrant the imposition of regulation. Ofcom therefore decided that it was appropriate to remove the WMO condition from Sky's broadcast licences, and proceeded to do so on 27 November 2015. Ofcom has stated that it will continue to monitor Sky's practices to determine whether regulation might be appropriate in the future. BT has filed an appeal against Ofcom's decision to the Competition Appeal Tribunal. Sky intends to seek permission to intervene in support of Ofcom's defence of its decision. The Group is unable to determine whether, and to what extent, the appeal will be successful or its financial impact. However, should the outcome of these processes be adverse to the Group, this may have a significant effect on the financial position or profitability of the Group.
  - **WMO obligations:** On 18 December 2015 the various appeals remitted to the CAT relating to Ofcom's 2010 decision to impose the WMO Obligations were withdrawn by order of the CAT on agreement between the parties.
  - **Competition law investigation into 2014 Serie A auction:** In May 2015, the Italian competition authority, the Autorita Garante della Concorrenza e del Mercato ('AGCM'), opened an investigation into the outcome of the June 2014 auction for broadcasting rights to Serie A football matches for the 2015-2018 seasons. The investigation is considering whether the Italian football league, Lega Nazionale Professionisti Serie A, its advisor Infront Italy Srl and broadcasters Sky Italia Srl, Reti Televisive Italiane S.p.A and its subsidiary Mediaset Premium S.p.A. entered into an anti-competitive agreement in relation to the award of the rights. On 11 December 2015, the AGCM sent Sky Italia a statement of objections maintaining that there has been a violation of art.101 TFEU. A final hearing is scheduled on 16 February 2016 and the AGCM expects the proceedings to be completed by the end of April 2016. The Group is currently unable to determine the outcome of the AGCM's investigation or its financial impact, however should the outcome be adverse to the Group, this may have a significant effect on the financial position or profitability of the Group.
- **Customer service:** A significant part of the Group's business is based on a subscription model and its future success relies on building long-term relationships with its customers. A failure to meet its customers' expectations with regards to service could negatively impact the Group's brand and competitive position.
- **Technology and business interruption:** The products and services that the Group provides to its customers are reliant on complex technical infrastructure. A failure in the operation of the Group's key systems or infrastructure, such as the broadcast platforms, customer management systems, OTT platforms or the telecommunications networks on which the Group relies could cause a failure of service to our customers and negatively impact our brand.
- **Suppliers:** The Group relies on a number of third parties and outsourced suppliers operating across the globe to support its business. A significant failure of a supplier or a discontinuation of supply could adversely affect the Group's ability to deliver operationally.
- **Financial:** The effective management of its financial exposures is central to preserving the Group's profitability. The Group is exposed to financial market risks, and may be impacted negatively by fluctuations in foreign exchange and interest rates which create volatility in the Group's results to the extent that they are not effectively hedged. Any increase in the financial leverage of the Group may limit the Group's financial flexibility. The Group may also be affected adversely by liquidity and counterparty risks.
- **Security:** The Group must protect its customer and corporate data and the safety of its people and infrastructure as well as needing to have in place fraud prevention and detection measures. The Group is responsible to third party intellectual property owners for the security of the content that it distributes on various platforms (Sky's own and third party platforms). A significant breach of security could impact the Group's ability to operate and deliver against its business objectives.
- **Projects:** The Group invests in, and delivers, significant capital expenditure projects in order continually to drive the business forward. The level of the Group's capital expenditure has increased as a result of the increased size of the Group's business following completion of the acquisitions of Sky Deutschland and Sky Italia. The failure to deliver key projects effectively and efficiently could result in significantly increased project costs and impede our ability to execute our strategic plans.
- **Intellectual property protection:** The Group in common with other service providers relies on intellectual property and other proprietary rights, including in respect of programming content, which may not be adequately protected under current laws or which may be subject to unauthorised use.
- **People:** People at Sky are critical to the Group's ability to meet the needs of its customers and achieve its goals as a business. Failure to attract or retain suitable employees across the business could limit the Group's ability to deliver its business plan commitments.