Unaudited results for the six months ended 31 December 2017

STRONG RESULTS, CONSISTENT EXECUTION OF STRATEGY

HIGHLIGHTS

Strong financial and operational results

- 5% increase in like-for-like revenue to £6.7 billion
- 15% increase in Established Business EBITDA to £1.2 billion
- 10% increase in EBITDA to £1.1 billion
- 11% increase in earnings per share to 31.3 pence
- 365,000 new customers to 22.9 million; 2 million products added to 61.7 million and 20 million pay as you go buys in six months, up 8%
- Interim dividend of 13.06 pence per share, up 4% from 2016, in addition to previously announced special dividend of 10 pence
- Statutory results: 5% revenue growth, operating profit of £573 million, up 24%, and EPS of 26.2 pence, up 39%

Consistent execution of our strategy

- On screen viewing of Sky brands up 6%, record viewing of Sky Originals, with future investment to increase every year
- Acquired significant new rights, including Warner Bros. and in Italy exclusive Formula 1 for the first time
- Sky Q launched in Italy, now in 2 million UK & Ireland homes and rolling out to Germany & Austria
- Launching our first Sky Q over IP service in Austria and Sky over fibre in Italy, both without the need for a satellite dish
- Operating costs flat in absolute terms and down 600 basis points as a percentage of revenue over last five years to 34%
- Investing for future growth: Sky Mobile scaling well and successful launches of Sky in Spain and Switzerland
- Ambitious set of plans for calendar 2018 and beyond

Jeremy Darroch, Group Chief Executive, commented:

"We have delivered excellent results. Sector-leading 5% revenue growth, a 15% increase in Established Business EBITDA and, after investment in future growth, EPS grew by 11%. This performance reflects the investment choices we have made in recent years, allowing us to more than offset the pressure on consumer spending across Europe, as more customers continue to choose Sky for more of their services.

“Operationally we’ve seen good customer demand for our products and services. We now have almost 23 million customers taking 61.7 million paid-for-products and making 20 million pay-as-you-go buys in six months. In addition, we have made further strong progress on operational efficiency, keeping operating costs flat in absolute terms.

“As Europe’s leading direct-to-consumer TV entertainment company, we are making good progress on our future growth plans. In content, our focus on high quality, differentiated local programming to complement what we acquire through our partners is working well. Viewing to Sky channels increased by 6% and, following both critical success and record audiences for Sky Original productions, we will be increasing our investment in original content each and every year.

“In innovation, we are constantly improving our customers’ experience and making it easier for them to take Sky. In the UK & Ireland Sky Q is now in 2 million homes. We recently launched Sky Q in Italy and will roll out the service to Germany & Austria in the next six months. We will also introduce Sky over fibre in Italy and our first all IP service in Austria, both without the need for a satellite dish.

“Looking ahead, we expect the consumer environment to remain challenging, however we remain confident in our strategy and our ability to execute our plans.”

Unless otherwise stated, results are presented throughout on an adjusted basis. For further details see page 6.

SUMMARY OF GROUP OPERATIONAL AND FINANCIAL PERFORMANCE

Our strategic priorities are clear and remain unchanged - to grow our revenues and profits while creating sustainable value for shareholders over the medium term by providing:

- The best and broadest range of content for every household;
- The best innovation in products and services;
- The best front-line service delivery from the number one brand; and
- Consistently improving our operational capability and efficiency; while
- Opening up new opportunities for growth by developing additional services and entering new geographic markets.

Despite households in all our territories facing continued pressure on discretionary spending, our customers and prospective customers value their on-screen entertainment highly, consuming more and getting more value from our content as successive waves of consumer technology innovation make the experience easier and better.

This is demonstrated by today's further 5% increase in revenues, well ahead of underlying growth in consumer spending and which maintains our historic record of consistent revenue growth achieved in a variety of economic and competitive circumstances.

The successful execution of our strategy is also reflected in the strong customer demand for our products and services. In the last six months we have attracted 365,000 new customers to 22.9 million, added a further 2 million new products to 61.7 million, and 8% more pay-as-you-go buys to 20 million. In addition, 70% of our customers are now receiving some or all their TV over-the-top and this is providing more value and enjoyment out of our service with viewing to Sky channels up 6% across our markets.

PLANS FOR 2018

In the year ahead we remain focused on executing against our strategic priorities in each market, exploiting our many opportunities for growth while giving more quality, choice and value to our customers. This in turn should help grow revenue and profits, while creating a more valuable business for our shareholders. Our plans range across content, innovation, and service, as well as efficiency savings and opening up new opportunities for growth.

The best and broadest range of content for every household

We will enhance our market-leading coverage of sports in each of our territories. In the UK and Ireland we will have exclusive live coverage of England football matches in the brand new UEFA Nations League as part of a new contract including qualifiers for Euro 2020 and FIFA World Cup 2022. In Germany and Austria for the first time we will take the UEFA Champions League exclusive to Pay-TV and commence an exclusive four year deal with the Austrian Bundesliga. In Italy we will become the first broadcaster to provide exclusive coverage of both the UEFA Champions League and Europa League, and for the first time have exclusive live coverage of Formula 1.

We're enhancing the Sky Cinema proposition, having agreed a new deal in the UK and Germany with Warner Bros. This will give customers faster access to new titles and a stronger line up of iconic franchises including all Harry Potter titles, Christopher Nolan's Batman trilogy, the Lord of the Rings, and the Lego movies.

In entertainment we'll continue to deliver the best of the US, showcasing great new series including the hotly-anticipated return of some of our most popular shows such as Billions, Westworld, Big Little Lies and Modern Family.

This US content complements our 'always on' Original content strategy. We will grow our investment in Sky Originals every year and we expect, overtime, to be spending less on second tier sports, linear only entertainment channels and niche movies. In 2018 we'll showcase over 50 Sky Original productions across eight key genres, including four dramas a quarter across our territories. We are differentiating our programming to other services, with a distinct focus on creating content that is local to our key markets. Growing our Sky Original content investment means we can offer our customers local content with very high production values, something our research shows our customers value more than acquired content in many cases. In addition it enables us to control the value chain for an increasing proportion of our standout content, while broadening our sources and reducing our dependence on individual content suppliers.

We aim to maximise the return on this content investment through broader distribution, as we seek to develop a relationship with every home in each of the markets in which we operate. In Germany we recently made our Sky Ticket streaming service available on the Apple TV app, and from early 2019 we will make the full NOW TV service available to BT customers through the BT TV set-top-box. We will also continue to monetise outside of our markets by further building our international sales capability. 2018 will be a record year for Sky Vision as we reach critical mass of content supply from Sky Originals and inventory from our stakes in nine production companies.

The best innovation in products and services

We have significant plans to further develop and improve the customer viewing experience in each of our territories and make it easier for new consumers to join Sky.

We will launch Sky Q in Germany and Austria as a part of a comprehensive upgrade of the whole service. This will transform our customers' viewing experience there, with a much more user friendly, intuitive and content-rich user interface, together with considerably enhanced navigation. At the same time we will look to scale the growth of Sky Q in the UK and Ireland, where it is already our fastest growing product, and in Italy following its launch there in November. We will also launch Sky Soundbox in Italy, Germany and Austria, following its successful launch in the UK in November.

Having deployed over-the-top services in all of our markets, we have a strong set of plans for our streaming business, most notably migrating all of our territories onto a common OTT platform. This will provide a step-change in capability that will deliver many benefits, including the ability to roll out innovation across all of our markets at greater pace and more efficiently. The first example will be the Pan-European launch of our new Streaming Stick, which will significantly increase the reach of our services. We will also introduce a host of other improvements this year across all of our territories, including enhanced personalisation, download functionality and HD packages.

We will launch Sky without a satellite dish, with all its channels and on demand content streamed over IP. This is a major development for Sky that will open up headroom in existing markets, improve our cost to serve for some customer segments, and offer a future way to take Sky into new markets. We'll launch first in Italy before taking it to Austria and ultimately deploying across all our key markets.

The best front-line service delivery from the number one brand

Having successfully expanded our sports proposition in the UK we are now simplifying how we package our entertainment offering. This should help us to grow new customer demand, keep more of our existing customers and encourage greater upgrades to our Box Sets service. In Germany and Austria we will roll out a new loyalty programme, replicating the success of our Italian and UK programmes. We will invest significantly behind our digital service offering, enhancing the functionality of our service apps in each market. In addition we are developing the next major step in customer service through the application of artificial intelligence and augmented reality, and have already built our first service concierge bot using IBM Watson.

Consistently improving our operational capability and efficiency.

We will continue to focus on efficiency savings while making progress towards our £400 million synergy target by the end of 2020. This year we will continue to accelerate our move to "Digital First" customer service including building a European Centre of Excellence for digital capability. This will be home to our leading digital innovation, setting the agenda for our approach to bots and automation. We will implement a new, Group-wide content supply chain – meaning content will arrive once and be digitally shared across the Group, removing duplication across markets - and we will continue to consolidate the back office and move to common TV platforms across our markets.

Opening up new opportunities for growth by developing additional services and entering new geographic markets

In the UK we'll continue to scale our growth in Mobile, having already attracted 335,000 customers. We will launch voice-over-Wifi calls to improve airtime margins, launch our tablet and accessory proposition, and continue to simplify our sales process. We have a full set of plans to ramp up growth of our TV services in Spain and Switzerland, building on our successful launches in both markets. In Spain we will get new partnerships to market, extend our device range and launch Original Programming, including as announced today Helen Mirren in Catherine the Great, to complement our existing offering. In Switzerland we will launch new entertainment and Kids apps, while also extending the existing sports app to more devices and across more telco partners.

RESULTS HIGHLIGHTS

(£m)	6 months to 31 Dec 17	6 months to 31 Dec 16 *Constant currency*	Growth	Foreign exchange impact	6 months to 31 Dec 16 *Actual exchange rates*
Revenue	**6,737**	**6,441**	**+5%**	**83**	**6,358**
UK and Ireland	4,438	4,267	+4%	-	4,267
Germany and Austria	1,015	943	+8%	36	907
Italy [1]	1,284	1,231	+4%	47	1,184
EBITDA Established Business[2]	**1,182**	**1,031**	**+15%**	**8**	**1,023**
UK and Ireland	973	841	+16%	-	841
Germany and Austria	34	40	-15%	2	38
Italy	175	150	+17%	6	144
EBITDA Investment Business[3]	**(63)**	**(14)**	**n.m.**	-	(14)
EBITDA	**1,119**	**1,017**	**+10%**	8	1,009
Statutory Results		*Actual exchange rates*			
Revenue	6,737	6,410	+5%		
Operating profit	573	461	+24%		
Earnings per share (basic)					
Adjusted (p)	31.3	28.3	+11%		
Statutory (p)	26.2	18.8	+39%		

Unless otherwise stated, results are presented throughout on an adjusted basis. The constant currency exchange rate used for translating the financial results of Italy and Germany & Austria into sterling is €1.12:£1, being the average rate for the current period (2016/17: €1.16:£1).

Adjusted results exclude items which may distort comparability in order to provide a measure of underlying performance. Such items arise from events or transactions that fall within the ordinary activities of the Group but which management believes should be separately identified to help explain underlying performance. For a reconciliation of statutory to adjusted results see Appendix 2.

(1) Like-for-like revenue growth in Italy is on an adjusted basis and excludes the one-off sale of the Rio Olympics rights in 2016/17.
(2)"Established Business" means those businesses that have been operating for many years. This includes our entertainment and fixed line communications businesses in the UK & Ireland, Italy and Germany & Austria.
(3)"Investment Business" means new businesses from the first year of launch through to their first year of profitability. Years prior to the year of launch are considered to be R&D and absorbed within Established Business EBITDA. Sky Mobile and Sky Spain are included in Investment Business.

Established Business EBITDA and Investment Business EBITDA are presented on an adjusted basis and provide information on the performance of the Group's underlying businesses and the investment being made in future growth. The sum of Established Business EBITDA and Investment Business EBITDA is equal to the Group's total adjusted EBITDA.

GROUP FINANCIAL PERFORMANCE

Unless otherwise stated, all numbers are presented on an adjusted basis for the six months ended 31 December 2017. For comparative amounts in the prior year down to operating profit, numbers are translated at a constant currency rate of €1.12:£1 being the average exchange rate prevailing in the six months to 31 December 2017, while revenue, costs and profit and earnings also exclude the one-off sale of the Rio Olympic rights in Italy in the prior year. For a reconciliation to amounts at actual exchange rates see page 6. Full details including prior year comparatives are in Appendix 2.

Revenue

Group revenues grew by £296 million, or 5% to £6,737 million (growth of £379 million including currency impact). We delivered growth in each territory, with the UK and Ireland up 4%, or £171 million, to £4,438 million; Germany and Austria up 8%, or £72 million, to £1,015 million; and Italy up 4%, or £53 million, to £1,284 million.

We also delivered revenue growth in each category. Direct to Consumer revenue, our largest revenue category, grew by 3% or £196 million, to £5,881 million driven by a number of factors, including: the increased size of our customer base; greater product penetration, as we grow into Sky Fibre, Sky Q and Sky Mobile; a higher number of pay as you go buys; the benefit from our home communications price rise in the UK in the second half of last fiscal year and the introduction of four-week billing in Italy in October 2017.

Content revenue strongly increased by 16% or £58 million to £412 million as we monetised our growing investment in Original Programming. Similarly Advertising revenue grew 10% or £42 million to £444 million with each territory significantly outperforming the market, including standout performances for Germany and Italy, and in the UK where we estimate the market was down 2% for the first half of the year.

Costs

We made excellent progress in operating efficiency, with operating costs as a percentage of revenue improving from 35% to 34%, helping to partly offset the success-based costs incurred in the UK to increase penetration of Fibre, and scale growth in Sky Mobile and Sky Q, as well as launching Sky Q in Italy. Total non-programming costs increased by 3%.

We continued to invest on screen for customers, with programming costs up 4% or £127 million. This includes a £72 million step up in Bundesliga costs in Germany, greater investment in Original drama and the UK launch of newly-branded Sky One. This was partly offset by a change to our sports rights amortisation approach in the UK, following the repackaging of our sport channel proposition, to an approach similar to that of Italy and Germany. As a result we are allocating 97.5% of the Premier League costs from the 2017/18 season to this fiscal year, with 2.5% or £35 million deferred from H1 2018 into the 2019 fiscal year.

Direct network costs increased by 19% as we scale growth in Sky Mobile, grow the number of broadband customers and increase fibre penetration to 33% of the total broadband customer base.

Sales, general and administrative costs were flat reflecting the strong progress we have made driving operating efficiency through the business, as well as the benefit of capitalising rather than fully expensing Sky Q box costs.

We have continued to make good progress towards our £400 million synergy target by the end of 2020 completing a number of projects during the year including the renegotiation of German Astra Transponder capacity, saving 34% per annum, agreeing our first multi-territory deal with Warner Bros. for Cinema and entertainment, and launching Sky Q in Italy, utilising our group technology that we invested in as part of our first phase integration projects.

Profit and earnings

As a result of our strong revenue growth and excellent progress in operating efficiency, Established Business EBITDA was up 15% to £1,182 million (2017: £1,031 million). EBITDA was up 10% after including the net costs of investing in two new lines of business – Sky Mobile and our Sky TV service in Spain.

Adjusting for depreciation and amortisation of £363 million, EBIT was up 11% to £756 million (2016: £682 million). Tax was £17 million higher at £112 million, at an effective tax rate of 17.3% (2017: 16.4%). The higher tax rate is mainly driven by a lower UK patent box benefit compared to the prior period, partially offset by lower tax rates in the UK and Italy. Profit after tax was £536 million (2017: £483 million), resulting in earnings per share of 31.3 pence, up 11% (2017: 28.3 pence).

Adjusting items

Statutory operating profit for the period of £573 million (2017: £461 million) is after the deduction of net operating expenses of £183 million (2017: £218 million) comprising three elements: (1) the ongoing amortisation of acquired intangible assets of £123 million (2017: £130 million), (2) £7 million of one off costs associated with the 21st Century Fox offer (2017: £9 million) and (3) adjusting items totalling £53 million (2017: £79 million) including the costs of corporate efficiency and restructuring programmes and the costs of integrating Sky Italia and Sky Deutschland, which were partly offset by income received with respect to regulatory credits and proceeds from settlements. A reconciliation of statutory and adjusted numbers is provided in Appendix 2.

Net debt and financial position

Net debt as at 31 December increased slightly to £7.4 billion (31 December 2016: £7.3 billion), predominantly due to an adverse non-cash movement of £236 million on the retranslation of Euro denominated debt into sterling at an exchange rate of €1.13 (31 December 2016: €1.17), partially offset by an underlying decrease of £114 million. This decrease largely comprises Free Cash Flow of £293 million; a return on investment from Sky Bet following their recapitalisation; the purchase of shares to satisfy the 2016/17 LTIP; and one-off costs to deliver ongoing operating efficiencies and integration synergies. On the basis of average exchange rates (as used in the group's banking covenant) our net debt to EBITDA ratio remained flat at 3.1 times. On a reported basis our net debt to EBITDA was 3.3 times (31 December 2016: 3.4 times).

The Group continues to maintain a strong financial position, including excellent liquidity with cash of £1,015 million as at 31 December 2017 and access to a £1 billion Revolving Credit Facility. During the period the Group repaid its October 2017 bond (£400 million) and expects to redeem from existing cash resources a further £387 million bond in February 2018. Thereafter we have a well-diversified portfolio of debt maturities.

BIGGER PICTURE

We announced three new major commitments for our corporate campaign Sky Ocean Rescue; the removal of our own single-use plastics by 2020; an investment fund of £25 million over five years in technology solutions; and support of marine protected areas across our markets. At the EU's 'Our Oceans Conference' in Malta we received an overwhelming level of interest from governments, NGOs and business, with awareness in the campaign rising substantially. More information and details on how to join the campaign are available at www.skyoceanrescue.com.

DIVIDENDS

The Directors have declared an interim dividend of 13.06 pence per share, which represents an increase of 4% on the interim dividend paid in 2016. Shareholders have continued to benefit from a strongly growing dividend, which has almost doubled over the last 10 years. The ex-dividend date will be 22 March 2018 and the dividend will be paid on 23 April 2018 to shareholders appearing on the register at the close of business on 23 March 2018. This is in addition to a 10 pence special dividend that will be paid on 9 February to shareholders that were on the register at close of business on 12 January 2018, as the 21st Century Fox offer had not become effective by 31 December 2017, making a total of 23.06 pence per share.

CORPORATE

On 15 December 2016, the Board of 21st Century Fox and the Independent Committee of the Board of Sky announced that they had reached agreement on the terms of a recommended pre-conditional cash offer by 21st Century Fox for the fully diluted share capital of Sky which 21st Century Fox and its affiliates do not already own (the "21st Century Fox offer"). The 21st Century Fox offer, which is intended to be effected by a scheme of arrangement is subject to the satisfaction or waiver of certain pre-conditions, principally being regulatory clearances. The 21st Century Fox offer is currently being reviewed on public interest grounds by the Competition and Markets Authority ("CMA"). On 23 January 2018 the CMA published Provisional Findings that (i) the 21st Century Fox offer is not likely to operate against the public interest on broadcasting standards grounds and (ii) the 21st Century Fox offer may be expected to operate against the public interest on media plurality grounds, but, at the same time, the CMA has set out possible remedies relating to the media plurality concerns. The new deadline for the CMA's final report to the Secretary of State is 1 May 2018. Regulatory clearances for the 21st Century Fox offer from all other relevant authorities have now been received.

DETAILED OPERATIONAL AND FINANCIAL PERFORMANCE BY MARKET

UK and Ireland

In the UK and Ireland we have continued to focus on maximising the returns on the significant content and product investments we have made over the last few years, as well as delivering broad-based revenue growth from new products and services.

In a challenging UK consumer environment, we have delivered a good financial and operational performance, growing revenue by 4% to £4,438 million. EBITDA increased by 16% to £973 million, and by 10% when including our investment in Sky Mobile and our new Sky TV service in Spain.

We added 180,000 customers in the first half, including 110,000 in Q2, and grew our product base by 1.7 million. This included 157,000 new TV products and 30,000 new Broadband products. Fibre penetration increased to a third of the broadband base, up from 21% a year ago.

We reinforced our position as the leading content brand in the UK. We reached a cross supply agreement with BT commencing in early 2019. We will receive wholesale supply of the BT Sport channels, enabling our customers to access every single match of the Premier League, the UEFA Champions League and Europa League shown across Sky and BT in one single Sky contract, while also making NOW TV available to BT customers on the BT TV set top box. We have also renewed our movie rights deal with Warner Bros, while agreeing a new five year deal with the English Football League, with 81% more matches, a new seven year deal for World Darts, and The Masters golf.

Customers have a good appetite to consume more of our content: our slate of Sky Original commissions performed well, with Riviera and Tin Star becoming our first and second most popular Sky Original drama series respectively, complementing acquired content like Game of Thrones, which became our most popular entertainment series ever. In addition following our successful new brand launch for Sky One, new original productions such as Bounty Hunters, Sick Note, and Strikeback helped drive channel consumption up by 14%. We have also seen good growth in Sports viewing following the expansion of our Sky Sports service in July. This included strong growth in Formula 1, the Rugby Autumn Internationals and FA Premier League, though the latter remains at a lower level than two years ago.

We continue to improve the customer viewing experience. We have further enhanced Sky Q, launching voice control and Sky Soundbox in November. Sky Q is now in 2 million homes and is continuing to drive noticeable change in customer behaviour relative to Sky+. Customers that take Sky Q consume 45% more On Demand content, transact 30% more through Sky Store and consistently have higher levels of customer satisfaction. They are also 64% more likely to upgrade to Multiscreen and their churn rate is lower.

Our 12-month rolling churn was 11.2%. This has reduced by 40 basis points from 11.6% a year ago. This is a direct result of our action plans, including putting Sky Q into more of our customers' homes, taking a more disciplined and targeted approach to discounting, and launching our VIP loyalty programme, which already has 1.4 million customers enrolled and we are yet to market it to customers. ARPU declined from £47 to £46, reflecting our strategy of broad-based growth - upselling existing customers to more products and services and adding new customers at lower price points, including standalone broadband and NOW TV. When combined with strong increases in customer volumes, this converts into strong, efficient revenue growth, which is our core focus.

We also continue to make good progress in broadening our revenue growth. In the half we have grown our Sky Mobile customer base to 335,000, including in Q2 adding 131,000 and increasing our share of handset market sales to 9%.

Against the backdrop of a weaker advertising market, we grew advertising revenue by 5% in the first half, an estimated 700 basis point outperformance to the TV advertising market. This was primarily driven by strong growth in advanced advertising, with Sky AdSmart revenues up 17% following actions we have taken to broaden the platform's scale.

We continue to invest behind service, helping Sky once again lead Ofcom's service league table for the seventh consecutive quarter across each of Pay-TV, Broadband and Phone. We continue to improve our digital-first service offering, and have seen a very strong response to our My Sky service app, which has been downloaded 4 million times since it launched in the second half of last year. We are progressing rapidly into robotics and automation, and our first service concierge bot is now live, built in partnership with IBM Watson.

Germany and Austria

We have made good progress pursuing the significant growth opportunity in Europe's largest TV market, adding 200,000 new customers in Germany and Austria, including 110,000 in Q2. We delivered a good financial performance, growing revenue by 8% to £1,015 million. This included a standout performance in Advertising, up 25% on the back of re-pricing sports inventory upwards, increased viewing, and good growth in our client direct business. EBITDA of £34 million was only £6 million lower than the prior year, as we absorbed almost all of the £72 million step up in rights costs for the new German Bundesliga contract.

Our content performance in the first half has been strong. We saw good growth in consumption, up more than 20%, with standout performances from our Original productions. Masterchef 2 had three times more viewers than its first season. Babylon Berlin, our first Original drama in Germany, was watched by over half a million viewers per episode and was nominated for nine national TV awards. Following this promising start to our Original German dramas we have a strong pipeline, with Acht Tage, Das Boot and Der Pass all currently in production.

Our sports viewing continues to grow, with German Bundesliga up 7%. We also launched our new Sky Sports app with Bundesliga in-match videos, which has already been downloaded half a million times. In addition we won exclusive rights for Austrian Bundesliga from July 2018.

We have made further good progress developing a range of products and services to suit the market. We have seen strong take up for Sky+ Pro, our next generation set top box, which is now in almost 900,000 homes. In the second half we will roll out Sky Q by deploying software on our Sky+ Pro boxes. This will represent a huge step-change in our customer experience, with a much more user friendly, intuitive and content rich user interface, as well as considerably enhanced navigation.

Sky Ticket has also had a strong half, with passes sold more than doubling, and we have now made it available on the new Apple TV app. We have had a good start in Switzerland since launching in September, and expanded the distribution of our Sky Sport OTT proposition to nearly all key platforms. Sky Store has had a successful start, helping to drive a 42% increase in total transactional revenue. The digital connectivity of our service continues to increase, with 41% of our customers now connected.

ARPU declined €1 to €33 given the addition of customers at lower price points. This reflects our deliberate actions to broaden out our proposition in Germany, thereby offering something for everyone. When combined with customer volumes, this is converting into strong, efficient revenue growth.

We continue to work through the previous discount strategy as well as managing high volumes of expiring contracts, resulting in churn increasing to 14.2%. While this is higher than we would like, this is important ground work to prepare for a major set of initiatives that we will launch in the next six months. This will include the launch of Sky Q and we will implement a major new user interface update across all services, transforming the viewing experience for every single customer. We will enhance the content line up, including more Sky Originals and leveraging recent deals in movies and sports. We will launch a simpler pricing structure and begin rolling out our loyalty programme whilst also improving front line service delivery with an all new contact centre experience in Berlin.

We also continue to improve the customer service experience. Our recently-launched Mein Sky service app has now been downloaded by more than 10% of our customer base and, alongside other operational improvements, helped our customer service metrics to improve despite a very busy Christmas period.

Italy

We delivered a strong performance in Italy as we continue to broaden revenues and drive greater operating leverage, while improving the TV viewing experience for customers.

Revenue increased by 4% to £1,284 million, its highest ever level for the first half. ARPU increased from €42 to €44, as we increased product penetration, and following introduction of four-week billing in October. Advertising revenue grew by 19%, significantly outperforming a flat TV advertising market given our excellent on-screen ratings across both Pay and Free to Air. EBITDA increased by 17% to £175 million.

Customer numbers declined by 15,000, impacted by an uncertain economic environment and a tick up in churn following the introduction of four-week billing. However at 9.6% churn remains very low.

We've had a good half on screen, including a strong performance for our Original programming. Viewing to X-Factor Italia was up 14% year on year, including up 22% for the Final show. The third series of our hit-show Gomorrah also performed very strongly, with it ranking number one at the box office when we released the first two episodes in cinemas prior to its premiere on Sky Atlantic. In sports, viewing was strong, up 9%, with bigger audiences for Serie A football, Formula 1 and Moto GP, and we secured exclusive rights for Formula 1 and UEFA Champions League and Europa League football.

It has been an important quarter for new innovation, successfully launching Sky Q at the end of November, which has had a very promising start. We have innovated with the way we package Sky content, launching our "Try the Sky Experience" that allows customers to trial Sky TV with no strings attached, and which has driven significant levels of interest from customers. We have also made Box Sets standard for all entertainment customers, increasing on-demand viewing by 30%.

Our customer service experience continues to improve. Our focus on enhancing digital channels is working well, with 60% of customer service requests now being self-served, up 7%.

Group KPI Summary (unaudited)

All figures (000) unless stated	H1 13	H1 14	H1 15	H1 16	H1 17	H1 18	Growth (6 months)
UK and Ireland	4.4%	7.1%	5.6%	6.3%	4.8%	4.0%	4.0%
Germany and Austria	15.2%	17.1%	9.3%	10.3%	9.6%	7.6%	7.6%
Italy	4.0%	-3.7%	-	-2.6%	4.2%	4.3%	4.3%
Revenue growth	**5.4%**	**5.7%**	**4.9%**	**5.0%**	**5.3%**	**4.6%**	**4.6%**
UK and Ireland	29,513	33,307	36,555	39,573	41,528	43,614	1,656
Germany and Austria	5,223	5,895	6,794	7,714	8,528	8,994	220
Italy	7,259	8,179	8,603	8,579	8,981	9,060	82
Total products	**41,995**	**47,381**	**51,952**	**55,866**	**59,037**	**61,668**	**1,958**
UK and Ireland	10,742	11,330	11,750	12,283	12,651	12,906	180
Germany and Austria	3,363	3,667	4,123	4,494	4,857	5,191	200
Italy	4,833	4,760	4,734	4,700	4,809	4,768	-15
Retail customers	**18,938**	**19,757**	**20,607**	**21,477**	**22,317**	**22,865**	**365**
UK and Ireland	3,751	3,624	4,080	4,063	3,759	3,421	-71
Germany and Austria	125	268	155	145	135	119	-10
Italy	-	-	-	-	-	-	-
Wholesale customers	**3,876**	**3,892**	**4,235**	**4,208**	**3,894**	**3,540**	**-81**
Total customers	**22,814**	**23,649**	**24,842**	**25,685**	**26,211**	**26,405**	**284**
ARPU							
UK and Ireland (£)	£45	£46	£47	£47	£47	£46	-£1
Germany and Austria (€)	€34	€36	€35	€35	€35	€33	-€1
Italy (€)	€43	€43	€43	€42	€42	€44	€2
Churn							
UK and Ireland	10.4%	10.9%	10.5%	10.2%	11.6%	11.2%	-0.3%
Germany and Austria	12.1%	11.4%	8.3%	9.8%	10.6%	14.2%	1.6%
Italy	14.9%	13.1%	10.0%	9.9%	9.5%	9.6%	0.5%

- Revenue growth is based on local currency revenues for Italy and Germany and constant currency for total revenue and excludes the sale of Rio Olympics in FY17.
- Wholesale customers are defined as customers taking at least one paid-for Sky channel. The customer numbers are as reported to us at the end of December 2017.
- In the UK and Ireland, paid-for products includes TV, Sky+ HD, Multiscreen, Sky Go Extra, Broadband, Line Rental, Telephony, Sky Mobile, Ultra HD and Sky Kids app.
- In Italy, paid-for products includes TV, Multiscreen, fully & partially paid HD, Sky Go Extra, and Ultra HD.
- In Germany and Austria, paid-for products includes TV, HD and Multiscreen and Sky Go Extra.
- ARPU is quarterly annualised, residential and presented as a monthly amount.
- Churn is 12 month rolling and includes residential customers only, unless otherwise stated.
- UK revenue growth excludes impact of Sky Bet and pre-acquisition sales to Sky Italy.
- FY13 to FY15 Revenue growth numbers for Germany and Austria and Italy are on a pro-forma basis.

Content highlights coming up on Sky over the next six months

sky UNO sky living sky one

Hawaii 5-O	Macgyver (series 2)	Face Off: Game Face
Bruno Barbieri 4 Hotel	Elementary	NCIS: Los Angeles (series 9)
The Kennedys: After Camelot	Ink Master Angels	The Blacklist

sky atlantic

Mosaic	The Affair (series 4)	SMILF
Divorce (series 2)	Westworld (series 2)	White Famous
Billions (series 3)	Silicon Valley (series 5)	Barry

sky sports

Football: Serie A and Serie B	Handball: Bundesliga	Cricket: Test Matches
Football: Bundesliga	Handball: EHF Champions League	Darts: Premier League
Football: UEFA Champions League & Europa League	Golf: US PGA Tour	Rugby: Super League XXIII
Tennis: ATP World Tour	Golf: US Open	Boxing: Bellew vs Haye 2
Moto GP	Golf: European Tour	Basketball: NBA
Football: EPL, EFL & SPFL	Golf: The Masters	Formula 1

sky cinema

Spiderman: Homecoming	Diary of a Wimpy Kid: The Long Haul	Alien: Covenant
Thor: Ragnorok		Split
Blade Runner 2049	I Deliitti Del Barlume	Life
The Lego Ninjago Movie	Despicable Me 3	The Emoji Movie
Transformers: The Last Knight	Snatched	Fast and Furious 8
Girl on the Train	Captain Underpants	John Wick: Chapter 2
Baywatch	The Mummy	La La Land
The Dark Tower	Cars 3	

Sky Original Productions

sky UNO sky living sky one

Jamestown (series 2)	Harry Hill's Tea Time	Celebrity Masterchef 2
Bulletproof	Bliss	Eine Liga fur sich (series 2)
Strike Back (series 6)	In the Long Run	Married at First Sight Italia (series 3)
Ristoranti	Masterchef Italia (series 7)	

sky atlantic

Britannia	Gomorrah (series 3)	Patrick Melrose
The Tunnel (series 3)	Sui Generi	Save Me

sky arts

Hansa Studios: By the Wall 1976-1990	Urban Myths (series 2)	Retromania
Master of Photography	Mystery of the Lost Paintings	Sette Meravigille
Portrait Artist of the Year 2018	Mix up Art	Muro
	Caravaggio 4K	De.Sign

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There will be a presentation conference call for UK/European analysts and investors at 8.30 a.m. (GMT). Participants should register by contacting Isabel Batchelor on +44 (0)20 7251 3801 or at Isabel.Batchelor@Finsbury.com.

There will be a separate conference call for US analysts and investors at 8.00 a.m. (EST). To register for this please contact Eric Ando at Taylor Rafferty on +1 212 889 4350. Alternatively you may register online at http://www.invite-taylor-rafferty.com/ sky/2018Q2/Default.htm. Both presentation and conference call will be available live via the Sky website at https://corporate.sky.com/investors/latest-results. Replays will subsequently be available.

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 Ticket, Sky Go, Sky Go Extra, Sky+ HD, Sky Store, Sky Online, Sky Mobile, Multiscreen, Sky AdSmart 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.

Related Party Transactions

Details of transactions with related parties during the six month period to 31 December 2017 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 our corporate website at sky.com/corporate.

By order of the Board
Jeremy Darroch
Group 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.

Appendix 1 - Condensed Consolidated Interim Financial Statements

Condensed Consolidated Income Statement for the half year ended 31 December 2017

	Notes	**2017/18 Half year £m**	2016/17 Half year £m
Revenue	2	**6,737**	6,410
Operating expense	2	**(6,164)**	(5,949)
EBITDA		**1,072**	934
Depreciation and amortisation		**(499)**	(473)
Operating profit		**573**	461
Share of results of joint ventures and associates		**47**	8
Investment income		**5**	8
Finance costs		**(142)**	(100)
Profit before tax		**483**	377
Taxation		**(35)**	(56)
Profit for the period		**448**	321
Profit (loss) for the period attributable to:			
Equity shareholders of the parent company		**449**	321
Non-controlling interests		**(1)**	-
		448	321

Adjusted earnings per share from adjusted profit for the period (in pence)			
Basic	3	**31.3p**	28.3p
Diluted	3	**31.1p**	28.1p

Earnings per share from profit for the period (in pence)			
Basic	3	**26.2p**	18.8p
Diluted	3	**26.0p**	18.7p

Condensed Consolidated Statement of Comprehensive Income for the half year ended 31 December 2017

	2017/18 Half year £m	2016/17 Half year £m
Profit for the period	**448**	321
Other comprehensive income		
Amounts recognised directly in equity that may subsequently be recycled to the income statement		
Gain on revaluation of available-for-sale investments	**91**	-
(Loss) gain on cash flow hedges	**(225)**	298
Tax on cash flow hedges	**42**	(63)
Loss on net investment hedges	**(66)**	(177)
Exchange differences on translation of foreign operations	**31**	213
	(127)	271
Amounts reclassified and reported in the income statement		
Loss (gain) on cash flow hedges	**87**	(199)
Tax on cash flow hedges	**(16)**	39
Amounts reclassified and reported in non-financial assets (basis adjustment)		
Gain on cash flow hedges	**(47)**	(91)
Tax on cash flow hedges	**8**	19
	32	(232)
Other comprehensive (loss) income for the period (net of tax)	**(95)**	39
Total comprehensive income for the period	**353**	360
Total comprehensive income (loss) for the period attributable to:		
Equity shareholders of the parent company	**354**	360
Non-controlling interests	**(1)**	-
	353	360

Condensed Consolidated Balance Sheet as at 31 December 2017

	31 December 2017 £m	31 December 2016 £m	30 June 2017 £m
Non-current assets			
Goodwill	**4,977**	4,811	4,930
Intangible assets	**4,538**	4,519	4,626
Property, plant and equipment	**2,427**	2,115	2,273
Investments in joint ventures and associates	**40**	121	116
Available-for-sale investments	**216**	88	110
Deferred tax assets	**339**	275	302
Programme distribution rights	**78**	63	63
Trade and other receivables	**55**	99	41
Derivative financial assets	**410**	1,118	643
	13,080	13,209	13,104
Current assets			
Inventories	**2,658**	2,398	1,113
Trade and other receivables	**1,757**	1,433	1,475
Current tax assets	**8**	15	12
Short-term deposits	**-**	150	300
Cash and cash equivalents	**1,015**	1,151	2,200
Derivative financial assets	**230**	137	234
	5,668	5,284	5,334
Total assets	**18,748**	18,493	18,438
Current liabilities			
Borrowings	**978**	416	974
Trade and other payables	**4,840**	4,492	4,303
Current tax liabilities	**121**	190	146
Provisions	**103**	145	107
Derivative financial liabilities	**56**	16	20
	6,098	5,259	5,550
Non-current liabilities			
Borrowings	**7,712**	8,860	8,207
Trade and other payables	**97**	117	87
Provisions	**72**	91	83
Derivative financial liabilities	**462**	343	384
Deferred tax liabilities	**257**	311	280
	8,600	9,722	9,041
Total liabilities	**14,698**	14,981	14,591
Share capital	**860**	860	860
Share premium	**2,704**	2,704	2,704
Reserves	**479**	(53)	274
Total equity attributable to equity shareholders of the parent company	**4,043**	3,511	3,838
Total equity attributable to non-controlling interests	**7**	1	9
Total liabilities and equity	**18,748**	18,493	18,438

Condensed Consolidated Cash Flow Statement for the half year ended 31 December 2017

	Notes	**2017/18 Half year £m**	2016/17 Half year £m
Cash flows from operating activities			
Cash (used in) generated from operations	5	**(162)**	364
Interest received		**7**	4
Taxation paid		**(80)**	(54)
Net cash (used in) from operating activities		**(235)**	314
Cash flows from investing activities			
Dividends received from joint ventures and associates		**122**	10
Funding to joint ventures and associates		**(4)**	(8)
Proceeds on disposal of investment in joint venture		**-**	4
Purchase of property, plant and equipment		**(349)**	(347)
Proceeds on disposal of property, plant and equipment		**-**	2
Purchase of intangible assets		**(246)**	(275)
Purchase of subsidiaries (net of cash and cash equivalents purchased)		**(1)**	-
Purchase of available-for-sale investments		**(17)**	(17)
Proceeds on disposal of available-for-sale investments		**8**	-
Decrease (increase) in short-term deposits		**300**	(150)
Net cash used in investing activities		**(187)**	(781)
Cash flows from financing activities			
Repayment of borrowings		**(400)**	(7)
Repayment of obligations under finance leases		**(2)**	(8)
Proceeds from disposal of shares in Employee Share Ownership Plan ("ESOP")		**1**	1
Purchase of own shares for ESOP		**(200)**	-
Interest paid		**(156)**	(153)
Capital contribution from non-controlling interests		**-**	3
Dividends paid to shareholders of the parent		**-**	(358)
Dividends paid to holders of non-controlling interests		**(1)**	-
Net cash used in financing activities		**(758)**	(522)
Net decrease in cash and cash equivalents		**(1,180)**	(989)
Cash and cash equivalents at the beginning of the period		**2,200**	2,137
Effect of foreign exchange rate movements		**(5)**	3
Cash and cash equivalents at the end of the period		**1,015**	1,151

Condensed Consolidated Statement of Changes in Equity for the half year ended 31 December 2017

	Attributable to equity shareholders of the parent company								
	Share capital £m	**Share premium £m**	**ESOP reserve £m**	**Hedging reserve £m**	**Other reserves £m**	**Retained (deficit) earnings £m**	**Total share-holders' equity £m**	**Non-controlling interests £m**	**Total equity £m**
At 30 June 2016	**860**	**2,704**	**(125)**	**257**	**302**	**(551)**	**3,447**	**(6)**	**3,441**
Profit for the period	-	-	-	-	-	321	321	-	321
Net investment hedges	-	-	-	-	(177)	-	(177)	-	(177)
Exchange differences on translation of foreign operations	-	-	-	-	213	-	213	-	213
Recognition and transfer of cash flow hedges	-	-	-	8	-	-	8	-	8
Tax on items taken directly to equity	-	-	-	(5)	-	-	(5)	-	(5)
Total comprehensive income for the period	**-**	**-**	**-**	**3**	**36**	**321**	**360**	**-**	**360**
Share-based payment	-	-	18	-	-	38	56	-	56
Non-controlling interests arising during the period	-	-	-	-	-	-	-	7	7
Tax on items taken directly to equity	-	-	-	-	-	6	6	-	6
Dividends	-	-	-	-	-	(358)	(358)	-	(358)
At 31 December 2016	**860**	**2,704**	**(107)**	**260**	**338**	**(544)**	**3,511**	**1**	**3,512**
Profit (loss) for the period	-	-	-	-	-	374	374	(4)	370
Net investment hedges	-	-	-	-	(158)	-	(158)	-	(158)
Exchange differences on translation of foreign operations	-	-	-	-	183	-	183	-	183
Recognition and transfer of cash flow hedges	-	-	-	(227)	-	-	(227)	-	(227)
Tax on items taken directly to equity	-	-	-	53	-	-	53	-	53
Actuarial movements on employee benefit obligations	-	-	-	-	1	-	1	-	1
Total comprehensive income (loss) for the period	**-**	**-**	**-**	**(174)**	**26**	**374**	**226**	**(4)**	**222**
Share-based payment	-	-	29	-	-	71	100	-	100
Non-controlling interests arising during the period	-	-	-	-	-	-	-	16	16
Tax on items taken directly to equity	-	-	-	-	-	1	1	-	1
Dividends	-	-	-	-	-	-	-	(4)	(4)
At 30 June 2017	**860**	**2,704**	**(78)**	**86**	**364**	**(98)**	**3,838**	**9**	**3,847**
Profit (loss) for the period	-	-	-	-	-	449	449	(1)	448
Net investment hedges	-	-	-	-	(66)	-	(66)	-	(66)
Exchange differences on translation of foreign operations	-	-	-	-	31	-	31	-	31
Revaluation of available-for-sale investment	-	-	-	-	91	-	91	-	91
Recognition and transfer of cash flow hedges	-	-	-	(185)	-	-	(185)	-	(185)
Tax on items taken directly to equity	-	-	-	34	-	-	34	-	34
Total comprehensive income (loss) for the period	**-**	**-**	**-**	**(151)**	**56**	**449**	**354**	**(1)**	**353**
Share-based payment	-	-	41	-	-	(190)	(149)	-	(149)
Dividends	-	-	-	-	-	-	-	(1)	(1)
At 31 December 2017	**860**	**2,704**	**(37)**	**(65)**	**420**	**161**	**4,043**	**7**	**4,050**

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 2017 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 2017, 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 2017 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 2017 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 31 December 2017 (fiscal year 2017: 26 weeks ended 1 January 2017). 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 31 of the 2017 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, mobile 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 2017

	UK & Ireland £m	**Italy £m**	**Germany & Austria £m**	**Adjusting Items & Eliminations £m**	**Statutory Group Total £m**
Direct to consumer	3,789	1,141	951	-	5,881
Content	390	9	15	(2)	412
Advertising	261	134	49	-	444
Revenue	**4,440**	**1,284**	**1,015**	**(2)**	**6,737**
Inter-segment revenue	(2)	-	-	2	-
Revenue from external customers	4,438	1,284	1,015	-	6,737
Programming	(1,819)	(716)	(626)	(1)	(3,162)
Direct network costs	(565)	-	-	9	(556)
Sales, general and administration	(1,379)	(467)	(411)	(189)	(2,446)
Operating expense	**(3,763)**	**(1,183)**	**(1,037)**	**(181)**	**(6,164)**
EBITDA	910	175	34	(47)	1,072
Depreciation and amortisation	(233)	(74)	(56)	(136)	(499)
Operating profit (loss)	**677**	**101**	**(22)**	**(183)**	**573**
Share of results of joint ventures and associates					47
Investment income					5
Finance costs					(142)
Profit before tax					**483**

Segmental income statement for the half year ended 31 December 2016

	UK & Ireland £m	Italy £m	Germany & Austria £m	Adjusting Items & Eliminations £m	Statutory Group Total £m
Direct to consumer	3,680	1,069	860	-	5,609
Content	338	58	9	-	405
Advertising	249	109	38	-	396
Revenue	**4,267**	**1,236**	**907**	**-**	**6,410**
Programming	(1,784)	(743)	(509)	(11)	(3,047)
Direct network costs	(474)	-	-	-	(474)
Sales, general and administration	(1,389)	(423)	(409)	(207)	(2,428)
Operating expense	**(3,647)**	**(1,166)**	**(918)**	**(218)**	**(5,949)**
EBITDA	830	142	37	(75)	934
Depreciation and amortisation	(210)	(72)	(48)	(143)	(473)
Operating profit (loss)	**620**	**70**	**(11)**	**(218)**	**461**
Share of results of joint ventures and associates					8
Investment income					8
Finance costs					(100)
Profit before tax					**377**

Results for each segment are presented on an adjusted basis. A reconciliation of statutory to adjusted results is shown in note 3 which also includes a description of the adjusting items.

To provide a more relevant presentation, management has chosen to reanalyse the revenue categories from those previously reported. Revenues previously included in Subscription, Transactional, and Other have been aggregated into Direct to consumer revenue. Revenue previously labelled Programme and Channel sales is now labelled Content.

During the period, the Group's pay TV business in the UK and Ireland repackaged its sport channel proposition, resulting in new sport-specific channels being retailed to the customer, which are consumed throughout the year. As a result, in accordance with the Group's accounting policy for the cost of sports rights, a portion of the total rights value has been allocated to the off-season period, and will be recognised on a straight-line basis over the off-season period. This change in accounting estimate has resulted in a reduction in programming expense of £35 million in the period.

3 Earnings per share

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

	2017/18 Half year Millions of shares	2016/17 Half year Millions of shares
Ordinary shares	**1,719**	1,719
ESOP trust ordinary shares	**(5)**	(10)
Basic shares	**1,714**	1,709
Dilutive ordinary shares from share options	**10**	12
Diluted shares	**1,724**	1,721

Basic and diluted earnings per share are calculated by dividing profit for the period attributable to equity shareholders of the parent company by 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.

	2017/18 Half year £m	2016/17 Half year £m
Reconciliation from profit for the period attributable to equity shareholders of the parent company to adjusted profit for the period attributable to equity shareholders of the parent company		
Profit for the period attributable to equity shareholders of the parent company	**449**	321
Costs relating to corporate restructuring and efficiency programmes	**47**	51
Costs relating to the integration of Sky Italia and Sky Deutschland in the enlarged Group	**27**	28
Regulatory-related credits and proceeds of settlements	**(24)**	-
Costs in relation to 21st Century Fox offer	**7**	9
Amortisation of acquired intangible assets	**129**	137
Distribution received from associate	**(40)**	-
Remeasurement of all derivative financial instruments not qualifying for hedge accounting and hedge ineffectiveness	**19**	(24)
Tax effect of above items and tax adjusting items	**(77)**	(39)
Adjusted profit for the period attributable to equity shareholders of the parent company	**537**	483

4 Dividends

	2017/18 Half year £m	2016/17 Half year £m	2016/17 Full year £m
Dividends declared and paid during the period			
2016 Final dividend paid: 20.95p per ordinary share	**-**	358	358
	-	358	358

As the 21st Century Fox offer had not become effective at 31 December 2017, and in accordance with the terms of the offer, a special dividend will be paid on 9 February 2018. The special dividend is 10 pence per ordinary share being £172 million.

The 2018 interim dividend is 13.06 pence per ordinary share being £224 million. The dividend was not declared at the balance sheet date and is therefore not recognised as a liability as at 31 December 2017.

5 Notes to the Condensed Consolidated Cash Flow Statement

Reconciliation of profit before taxation to cash (used in) generated from operations

	2017/18 Half year £m	2016/17 Half year £m
Profit before taxation	**483**	377
Depreciation, impairment and losses (profits) on disposal of property, plant and equipment	**186**	188
Amortisation, impairment and losses (profits) on disposal of intangible assets	**313**	285
Share-based payment expense	**50**	61
Investment income	**(5)**	(8)
Finance costs	**142**	100
Share of results of joint ventures and associates	**(47)**	(8)
	1,122	995
Increase in trade and other receivables	**(307)**	(110)
Increase in inventories	**(1,540)**	(1,449)
Increase in trade and other payables	**627**	709
Decrease in provisions	**(12)**	(41)
(Decrease) increase in derivative financial instruments	**(52)**	260
Cash (used in) generated from operations	**(162)**	364

6 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 £20 million (2017: half year: £34 million; full year: £30 million).

b) Sky Bet distribution

The Group received a cash distribution of £113 million from its associate Sky Bet following Sky Bet's re-capitalisation during the period.

c) Handset financing

During the period, the Group entered into a securitisation facility with a third party for the sale of mobile handset receivables, where the Group acts as servicer to the third party for the receivables. The Group does not have control over the securitisation vehicle, and has transferred substantially all the risks and rewards of the receivables. As a result, the receivables have been derecognised and the securitisation vehicle is not consolidated within the Group's financial statements, such that the transfer of handset receivables is treated as a sale in the Group's financial statements. Sales of mobile handset receivables resulted in proceeds of £49 million recognised in cash flows from operating activities and associated costs of £5 million being recognised in the period.

d) Redemption of Guaranteed Notes

The Group repaid in full £400 million of 5.750% Guaranteed Notes during the period.

7 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 in the Company.

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

	2017/18 Half year £m	2016/17 Half year £m	2016/17 Full year £m
Supply of goods or services by the Group	**24**	29	41
Purchases of goods or services by the Group	**(200)**	(198)	(413)
Amounts owed to the Group	**25**	26	24
Amounts owed by the Group	**(197)**	(246)	(193)

At 31 December 2017 the Group had expenditure commitments of £513 million (2017: half year: £602 million; full year: £359 million) with 21st Century Fox companies, all of which related to minimum television programming rights commitments.

7 Transactions with related parties and major shareholders (continued)

a) Entities with joint control or significant influence (continued)

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 and technical and marketing services from 21st Century Fox companies.

There is an agreement between 21st Century Fox and the Group, pursuant to which it was 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.

The sale and purchase agreements for the acquisitions of Sky Italia Srl and Sky Deutschland AG contained certain commitments from 21st Century Fox not to retail certain services to consumers in certain territories until 1 January 2017. The sale and purchase agreement for the National Geographic channel contained undertakings from the Company not to compete with the business of the National Geographic Channel International until 1 January 2017.

On 15 December 2016, the Company entered into a co-operation agreement with 21st Century Fox pursuant to which the parties have agreed to provide each other with information and assistance for the purposes of obtaining all merger control and regulatory clearances and authorisations in relation to the 21st Century Fox offer and the preparation of the document to be sent to the Company's shareholders in relation to the Scheme.

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.

	2017/18 Half year £m	2016/17 Half year £m	2016/17 Full year £m
Supply of services by the Group	**25**	24	47
Purchases of goods or services by the Group	**(25)**	(26)	(52)
Amounts owed by joint ventures and associates to the Group	**30**	124	29
Amounts owed to joint ventures and associates by the Group	**(15)**	(22)	(9)

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

Amounts owed by joint ventures and associates include £17 million (2017: half year: £92 million; full year: £16 million) relating to loan funding. The loans bear interest at rates between 1.50% and 2.00% (2017: half year: between 1.50% and 8.20%; full year: between 1.50% and 2.00%). The maximum amount of loan funding outstanding in total from joint ventures and associates during the period was £17 million (2017: half year: £92 million; full year: £100 million). In the year ended 30 June 2017 Sky Bet repaid £83 million pursuant to an outstanding loan balance.

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

The face value of forward foreign exchange contracts with AETN UK that had not matured as at 31 December 2017 was £11 million (2017: half year: £25 million; full year: £13 million).

During the current period, less than US$1 million (2017: half year: US$19 million; full year: US$19 million) was received from AETN UK upon maturity of forward foreign exchange contracts and US$3 million (2017: half year: US$27 million; full year: US$37 million) was paid to AETN UK upon maturity of forward foreign exchange contracts.

During the current period, £2 million (2017: half year: £18 million; full year: £26 million) was received from AETN UK upon maturity of forward foreign exchange contracts and £1 million (2017: half year: £17 million; full year: £21 million) was paid to AETN UK upon maturity of forward foreign exchange contracts.

During the current period, €1 million (2017: half year: €4 million; full year: €8 million) was received from AETN UK upon maturity of forward foreign exchange contracts and nil (2017: half year and full year: nil) was paid to AETN UK upon maturity of forward foreign exchange contracts.

At 31 December 2017 the Group had minimum expenditure commitments of £1 million (2017: half year: £5 million; full year: £1 million) with its joint ventures and associates.

c) Other transactions with related parties

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

7 Transactions with related parties and major shareholders (continued)

d) Key management

The Group has a related party relationship with the Directors of the Company. At 31 December 2017, there were 11 (2017: half year: 11; full year: 11) members of key management, all of whom were Directors of the Company. Key management compensation is provided below:

	2017/18 Half year £m	2016/17 Half year £m	2016/17 Full year £m
Short-term employee benefits	**4**	4	6
Share-based payments	**5**	4	11
	9	8	17

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

8 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:

	Level 1		**Level 2**		**Level 3**	
	31 December 2017 £m	30 June 2017 £m	**31 December 2017 £m**	30 June 2017 £m	**31 December 2017 £m**	30 June 2017 £m
Financial assets						
Available-for-sale financial assets						
Other investments	**100**	-	**-**	-	**116**	110
Financial assets at fair value through profit or loss						
Interest rate swaps	**-**	-	**22**	44	**-**	-
Cross-currency swaps	**-**	-	**611**	783	**-**	-
Forward foreign exchange contracts	**-**	-	**7**	50	**-**	-
Total	**100**	-	**640**	877	**116**	110
Financial liabilities						
Financial liabilities at fair value through profit or loss						
Interest rate swaps	**-**	-	**(2)**	(4)	**-**	-
Cross-currency swaps	**-**	-	**(390)**	(353)	**-**	-
Forward foreign exchange contracts	**-**	-	**(122)**	(40)	**-**	-
Embedded Derivative	**-**	-	**(4)**	(7)	**-**	-
Total	**-**	-	**(518)**	(404)	**-**	-

Level 1 fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities, including shares in listed entities. The £100 million increase in available-for-sale investments held at level 1 fair value relates to one of the Group's investments, Roku Inc., becoming a listed entity in the period, for which a quoted price is therefore now available.

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 2017 which comprises the consolidated income statement, the consolidated balance sheet, the consolidated statement of comprehensive income, the consolidated cash flow statement, the consolidated statement of changes in equity and related notes 1 to 8. 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 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 2017 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
Statutory Auditor
London
24 January 2018

Appendix 2 – Non-GAAP measures

Reconciliation of cash (used in) generated from operations to adjusted free cash flow
for the half year ended 31 December 2017

	2017/18 Half year £m	2016/17 Half year £m
Cash (used in) generated from operations	**(162)**	364
Adjusting items:		
Cash paid relating to corporate restructuring and efficiency programmes	**62**	55
Cash paid relating to the integration of Sky Italia and Sky Deutschland in the enlarged Group	**6**	18
Cash received relating to regulatory-related credits and proceeds of settlements	**(20)**	-
Cash paid in relation to 21st Century Fox offer	**3**	1
Adjusted cash (used in) generated from operations	**(111)**	438
Interest received	**7**	4
Taxation paid	**(80)**	(54)
Dividends received from joint ventures and associates	**122**	10
Funding to joint ventures and associates	**(4)**	(8)
Purchase of property, plant and equipment	**(349)**	(347)
Purchase of intangible assets	**(246)**	(275)
Interest paid	**(156)**	(153)
Tax effect of adjusting items	**(20)**	(32)
Adjusted free cash flow	**(837)**	(417)

Analysis of movements in net debt

	As at 1 July 2017 £m	Cash movements £m	Non-cash movements £m	**As at 31 December 2017 £m**
Current borrowings	974	(402)	406	978
Non-current borrowings	8,207	-	(495)	7,712
Borrowings-related derivative financial instruments	(470)	-	229	(241)
Gross debt	**8,711**	**(402)**	**140**	**8,449**
Cash and cash equivalents	(2,200)	1,185	-	(1,015)
Short-term deposits	(300)	300	-	-
Net debt	**6,211**	**1,083**	**140**	**7,434**

Consolidated income statement - reconciliation of statutory and adjusted numbers

		2017/18		
		Statutory	Adjusting Items	Adjusted
	Notes	£m	£m	£m
Revenue				
Direct to consumer		**5,881**	**-**	**5,881**
Content		**412**	**-**	**412**
Advertising		**444**	**-**	**444**
		6,737	**-**	**6,737**
Operating expense				
Programming	A	**(3,162)**	**3**	**(3,159)**
Direct network costs	B	**(556)**	**(9)**	**(565)**
Sales, general and administration	C	**(2,446)**	**189**	**(2,257)**
		(6,164)	**183**	**(5,981)**
EBITDA		**1,072**	**47**	**1,119**
Operating profit		**573**	**183**	**756**
Share of results of joint ventures and associates	D	**47**	**(34)**	**13**
Investment income	E	**5**	**(3)**	**2**
Finance costs	F	**(142)**	**19**	**(123)**
Profit before tax		**483**	**165**	**648**
Taxation	G	**(35)**	**(77)**	**(112)**
Profit for the period		**448**	**88**	**536**
Loss for the period attributable to non-controlling interests		**1**	**-**	**1**
Loss for the period attributable to equity shareholders of the parent company		**449**	**88**	**537**
Earnings per share (basic)		**26.2p**	**5.1p**	**31.3p**

Notes: explanation of adjusting items for the period ended 31 December 2017

A. Costs of £2 million relating to corporate restructuring and efficiency programmes and costs of £1 million relating to the integration of Sky Deutschland and Sky Italia in the enlarged Group.
B. Income of £9 million relating to regulatory-related credits and proceeds of settlements.
C. Costs of £45 million relating to corporate restructuring and efficiency programmes, costs of £26 million relating to the integration of Sky Deutschland and Sky Italia in the enlarged Group (including amortisation of £13 million in relation to associated intangibles), income of £12 million relating to regulatory-related credits and proceeds of settlements, costs of £7 million in relation to 21st Century Fox offer and amortisation of acquired intangible assets of £123 million.
D. Income of £40 million relating to distribution received from associate and amortisation of acquired intangible assets of £6 million.
E. Interest income of £3 million on credit received relating to regulatory-related credits and proceeds of settlements.
F. Finance costs of £19 million relating to the remeasurement of all derivative financial instruments not qualifying for hedge accounting and hedge ineffectiveness.
G. Tax effect of above adjusting items and tax adjusting items.

Corporate restructuring and efficiency programmes include costs associated with specific programmes that the Group has established in order to achieve reductions in ongoing operating expense. Costs of these programmes include redundancy and relocation costs, consultancy costs, contract exit costs and the impairment or accelerated depreciation of assets that the Group no longer expects to use for their original estimated useful economic life.

Consolidated income statement - reconciliation of statutory and adjusted numbers

		2016/17		
	Notes	**Statutory £m**	**Adjusting Items £m**	**Adjusted £m**
Revenue				
Direct to consumer		**5,609**	**-**	**5,609**
Content		**405**	**-**	**405**
Advertising		**396**	**-**	**396**
		6,410	**-**	**6,410**
Operating expense				
Programming	A	**(3,047)**	**11**	**(3,036)**
Direct network costs		**(474)**	**-**	**(474)**
Sales, general and administration	B	**(2,428)**	**207**	**(2,221)**
		(5,949)	**218**	**(5,731)**
EBITDA		**934**	**75**	**1,009**
Operating profit		**461**	**218**	**679**
Share of results of joint ventures and associates	C	**8**	**7**	**15**
Investment income		**8**	**-**	**8**
Finance costs	D	**(100)**	**(24)**	**(124)**
Profit before tax		**377**	**201**	**578**
Taxation	E	**(56)**	**(39)**	**(95)**
Profit for the period		**321**	**162**	**483**
Profit for the period attributable to non-controlling interests		**-**	**-**	**-**
Profit for the period attributable to equity shareholders of the parent company		**321**	**162**	**483**
Earnings per share (basic)		**18.8p**	**9.5p**	**28.3p**

Notes: explanation of adjusting items for the period ended 31 December 2016

A. Costs of £6 million relating to the integration of Sky Deutschland and Sky Italia in the enlarged Group and costs of £5 million relating to corporate restructuring and efficiency programmes.
B. Costs of £46 million relating to corporate restructuring and efficiency programmes (including amortisation of £13 million in relation to associated intangibles), costs of £22 million relating to the integration of Sky Deutschland and Sky Italia in the enlarged Group, costs of £9 million in relation to 21st Century Fox offer and amortisation of acquired intangible assets of £130 million.
C. Amortisation of acquired intangible assets of £7 million.
D. Finance income of £24 million relating to the remeasurement of all derivative financial instruments not qualifying for hedge accounting and hedge ineffectiveness.
E. Tax effect of above adjusting items and tax 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 28-31 of the 2017 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 outcome of the UK referendum has caused further economic uncertainty. A significant economic decline in any of those territories could impact the Group's ability to continue to attract and retain customers in that territory.
- Regulatory breach and change: 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. The Group is subject to regulation primarily under Austrian, German, Irish, Italian, UK and European Union ("EU") legislation. The Group is currently, and may be in the future, subject to proceedings, and/or investigation and enquiries, from regulatory authorities. The telecommunications and media regulatory framework applying to the Group in the UK and the EU may be subject to greater uncertainty in the event that the UK leaves the EU. Potential changes to the regulatory framework could include divergence in the long term between the UK and EU regulation of telecommunications and media, and changes to certain mutual recognition arrangements for media and broadcasting. Sky does not currently foresee any regulatory changes as a result of a UK exit that would have a material impact on its business. Below is an update of the ongoing investigations and reviews of regulatory and competition matters involving the Group listed at pages 32-33 of the 2017 Annual Report to the extent that there have been developments since the 2017 Annual Report.
    - Ofcom investigation into Sky's compliance with rules about cancellation and termination arrangements: On 6 August 2015, Ofcom opened an investigation on whether there are reasonable grounds for believing that Sky has failed to comply with its obligations under the Ofcom General Conditions of Entitlement which require communication providers to ensure that their conditions or procedures for contract termination do not act as a disincentive for end-users changing their communication providers. On 7 August 2017, Ofcom closed the investigation deciding to take no further enforcement action, following consideration of Sky's representations.
    - Competition law investigation into 2014 Serie A auction: On 19 April 2016, the Italian Competition Authority (the 'ICA') made its final decision in relation to the award of Serie A TV Broadcasting Rights for the 2015-18 seasons. According to the ICA, Lega Nazionale Professionisti Serie A, its advisor Infront Italy S.r.l., and TV broadcasters Sky Italia, Reti Televisive Italiane S.p.A. and its subsidiary Mediaset Premium S.p.A. entered into an anticompetitive agreement in breach of Art. 101 of the Treaty on the Functioning of the European Union to change the award of TV broadcasting rights for the 2015-18 seasons Serie A matches. With respect to Sky Italia, the ICA concluded that it had played a marginal and defensive role in the infringement in order to obtain the award of at least one of the two packages that should have been assigned to Sky Italia based on the tendered offers. Moreover, Sky Italia extensively co-operated with the ICA during the proceedings. Accordingly, the ICA imposed a fine equal to €4 million on Sky. On 18 June 2016, Sky Italia filed an appeal seeking the annulment of the decision. On 23 December 2016, the Italian Administrative Court (TAR Lazio), upheld Sky Italia's appeal and annulled the ICA decision in its entirety. On 23 March 2017 the ICA filed an appeal against the TAR decision before the Consiglio di Stato. The date of the hearing before the Consiglio di Stato has not been fixed yet.
    - European Commission investigation: On 13 January 2014, the European Commission (the 'EC') opened a formal antitrust investigation into cross-border provision of pay TV services in the European Union. The investigation was opened into certain provisions relating to territorial protection in licence agreements between major US film studios (Twentieth Century Fox, Warner Bros., Sony Pictures, NBC Universal, Paramount and Disney) and key European pay TV broadcasters (Sky UK, Canal Plus, Sky Italia, Sky Deutschland and DTS, operating under the Canal Plus brand in Spain). On 23 July 2015, the EC adopted a Statement of Objections, setting out its preliminary finding that there has been an infringement of EU Competition law involving Sky UK. Sky UK and the Studios, have responded to the EC's case, both in written responses (October 2015) and at an oral hearing (January 2016). In addition, Paramount has proposed commitments which the EC accepted in July 2016. The EC has not yet reached its final views and the Group is not yet able to determine the outcome of the investigation or its financial impact. However, should the outcome be adverse to Sky UK, this may have a significant effect on the financial position or profitability of the Group.
    - Secretary of State Review of the 21st Century Fox offer on public interest grounds: The 21st Century Fox Offer is subject to the satisfaction or waiver of certain pre-conditions, principally being regulatory clearances. On 16 March 2017, the Secretary of State for Digital, Culture, Media and Sport (the 'Secretary of State') issued a European Intervention Notice, confirming her intervention in the 21st Century Fox Offer on two public interest grounds – media plurality and commitment to broadcasting standards. On 20 June 2017, Ofcom and the Competition and Markets Authority (the 'CMA') provided reports to the Secretary of State on the media public interest grounds and jurisdiction, respectively. Separately, Ofcom conducted a review of whether Sky would remain a fit and proper holder of UK broadcast licences following the completion of the 21st Century Fox Offer and concluded that it would. On 29 June 2017, the Secretary of State announced that she was minded to refer the Offer to the CMA for an in-depth Phase II review on the grounds of media plurality only. The Secretary of State consulted on this decision and on 14 September 2017, she referred the 21st Century Fox Offer for a Phase II review on grounds of both of media plurality and commitment to broadcasting standards. On 23 January 2018, the CMA published Provisional Findings that (i) the 21st Century Fox Offer is not likely to operate against the public interest on broadcasting standards grounds and (ii) the 21st Century Fox Offer may be expected to operate against the public interest on media plurality grounds, but, at the same time, the CMA has set out possible remedies relating to the media plurality concerns. The deadline for the CMA's final report to the Secretary of State has been extended to 1 May 2018. Regulatory clearances for the 21st Century Fox Offer from all other relevant authorities have now been received.
- 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.

Appendix 3 - Principal risks and uncertainties (continued)

- 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.