

Corporate governance report

CHAIRMAN'S OVERVIEW



It gives me great pleasure to introduce this year's Corporate Governance Report. I would like to take this opportunity to provide you with some direct insight into the Board's views on Corporate Governance, the changes to our Board composition through the year

and our focus for the coming months.

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

Firstly, I would like to address our Board composition. Following the withdrawal of the News Corporation proposal in July 2011, the Corporate Governance & Nominations Committee has reviewed the composition of the Board and has started an orderly programme of replacing independent non-executive directors as they retire. As a result, a number of changes in Board and Committee membership have been recommended to the Board during the year. I am pleased to welcome Tracy Clarke, Martin Gilbert and Matthieu Pigasse to the Board, who have replaced Allan Leighton and David Evans who retired after the Company's 2011 AGM, and Dame Gail Rebeck who retired in June 2012. In order to clarify the roles of Board members, within our Corporate Governance Report on page 44, we have included a detailed description of the Directors' roles and responsibilities.

I took over the role of Chairman in April 2012 replacing James Murdoch, who has assumed the role of Non-Executive Director. James made a major contribution to the success of the Company during his tenure as CEO, then more recently as Chairman and going forward the Board will continue to benefit from his business insight and experience. Thomas Mockridge has assumed the role of Deputy Chairman and Andrew Higginson has taken over as Senior Independent Non-Executive Director.

It has been the Board's strategy to attract directors who complement and expand upon the skill set of the Board. We seek to appoint directors who provide diversity in background, experience and views. We recognise that gender diversity can bring a greater range of viewpoints to boardroom debate and improve board dynamics.

Our internal evaluations over the last several years, have all indicated that the Board is operating effectively. In line with Corporate Governance best practice, an external board evaluation will be undertaken during the 2012/13 financial year. In the interests of ensuring the transparency of our Board operations, we will discuss the resulting developmental themes from the evaluation processes within future reports.

During the year we have continued our work in promoting greater and more effective engagement with our shareholders. Andrew Higginson, our Executive Directors, and I have met regularly with institutional investors and analysts. Along with Daniel Rimer, Chairman of the Remuneration Committee, we will continue to engage with shareholders over the course of the coming financial year.

Nicholas Ferguson
Chairman

COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE

The UK Corporate Governance Code (the 'Code') provides the standard of good corporate governance in the UK. The Financial Services Authority requires listed companies to disclose whether they have complied with the provisions of the Code throughout the financial year.

The Board considers that the Company complied with the main principles of the Code for the whole of the year ended 30 June 2012 with the following exception. Provision C.3.1. of the Code states that the Audit Committee must be comprised of at least three Independent Non-Executive Directors. There was a period during the year between Allan Leighton's retirement from the Board and the Audit Committee on 29 November 2011 and Matthieu Pigasse's appointment as a member of the Audit Committee on 1 May 2012, that the Audit Committee's membership fell to two Independent Non-Executive Directors. The meeting of the Audit Committee held on 30 January 2012 was held prior to Mr Pigasse's appointment to the Committee. There were no other meetings held without three Independent Non-Executive Directors being present from 29 November 2011 to 1 May 2012.

This section of the Annual Report along with the Remuneration Committee's report on Directors' remuneration on pages 54 to 63 and other governance and statutory disclosures on pages 64 to 66 provide details of how the Company has applied the main principles. Further information on the Code is publicly available on the Financial Reporting Council's website www.frc.org.uk.

We believe that at the close of the financial period the Company is wholly compliant with the provisions of the Code having addressed the unintentional departure from the Code as documented above.

LEADERSHIP

Role of the Board and its Members

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

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

The Directors of the Board are selected on the criteria of proven skill and ability in their particular field of endeavour, and a diversity of outlook and experience which directly benefits the operation of the Board as the custodian of the business. A full biography of each Board member is provided on pages 40 to 41.

The Board agenda

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

To maintain an appropriate level of control over the day to day affairs of the Company, the following matters are subject to the determination and/or approval of the Board, and are contained within the Company's 'Schedule of Matters Reserved to the Board':

- approval of the annual budget and any changes to it;
- a major change in the nature, scope or scale of the business of the Group;
- approval of the interim and final results;
- approval of any dividend policy;
- changes relating to the Group's capital structure, including reductions of capital and share buy-backs;
- the entering into by the Group of a commitment or arrangement (or any series of related commitments or arrangements) which, whether budgeted or unbudgeted, involves or could reasonably involve, the payment or receipt by the Group of amounts equal to or in excess of £200 million in aggregate value;
- the entering into by the Group of a commitment or arrangement (or any series of related commitments or arrangements) with News Corporation, any of its subsidiaries, or a related party which involves, or could reasonably involve, the payment or receipt by the Group of amounts equal to or in excess of £25 million in aggregate value;
- approval of resolutions to be put forward to shareholders at a general meeting;
- changes to the structure, size and composition of the Board, following, if applicable, recommendations from any committee to which the Board delegates consideration of such issues;
- appointment and removal of the Chairman of the Board and the CEO; and
- determining the independence of Non-Executive Directors.

The full schedule of matters reserved for decision making by the Board, can be found on the Company's corporate website at www.sky.com/corporate. In the event that a matter is required to be resolved by a vote of the Board, the matter shall be decided by a majority of votes in accordance with the Company's articles of association. The Chairman does not have a casting vote.

Board delegation

The Board has delegated specific responsibilities to Board committees, notably the Audit, Remuneration, Corporate Governance & Nominations and The Bigger Picture committees. Each committee's terms of reference can be found on the Company's corporate website. The Corporate Governance & Nominations Committee reviewed the terms of reference of each committee during the year and recommended changes to the Board. The Board is satisfied that the terms of reference of each of the committees satisfy the requirements of the Code.

The minutes of committee meetings are made available to all Board Directors on a timely basis. At each Board meeting the chairman of each committee provides the Board with a brief update of the work currently being carried out by the committee they chair.

The Board has delegated authority for the day-to-day running of the organisation to the Executive Directors. A committee of senior management generally meets on a weekly basis to allow prompt discussion of relevant business issues. It is chaired by the CEO and comprises the CFO and other senior executives from within the Group.

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ROLES AND RESPONSIBILITIES

The Chairman

The Chairman is responsible for leadership of the Board, ensuring its effectiveness on all aspects of its role and setting its agenda. This includes ensuring, via the Company Secretary, that the Directors receive accurate, timely and clear information. The duties of the Chairman include the following:

- to encourage and ensure effective communication with shareholders, and ensure shareholder views are communicated to the Board as a whole;
- to facilitate a structure to allow the effective contribution of all Directors, and of Non-Executive Directors in particular;
- to create an environment which engenders constructive relations between Executive and Non-Executive Directors;
- to organise the business of the Board so that it can be carried out effectively and efficiently;
- to lead the Board in discussions regarding the Company's strategy and in the achievement of its objectives;
- to ensure Board committees are properly established, composed and operated; and
- to enhance the Company's public standing and image overall.

The Chief Executive Officer

The CEO is responsible for the daily operation of the Company, advancing long-term shareholder value, supported by the management team. He is accountable and responsible to the Board for the management and operation of the Company. He is also involved in the management of the social and environmental responsibilities of the Company. The duties of the CEO include the following:

- to be responsible and accountable to the Board for the management and operation of the Group;
- to prepare and implement plans and programmes for the attainment of approved objectives and to recommend such plans and programmes to the Board as appropriate;
- to provide leadership in the Group's commitment to attaining high business standards generally;
- to create the conditions within the Group for the efficient operation of all business units;
- to establish and maintain relationships with shareholders and potential shareholders, and major external bodies;
- to keep the Board informed on all matters of material importance; and

- to chair meetings of the Executive Committee.

Deputy Chairman

The role of the Company's Deputy Chairman is:

- to deputise for the Chairman as appropriate in his absence; and
- to provide a sounding board to Non-Executive Directors as appropriate.

Senior Independent Non-Executive Director (SID)

The role of the SID is to provide both support and a counterbalance to the position of Chairman and encompasses the following:

- to provide a sounding board to the Chairman;
- to serve as an alternative source of advice to the Chairman for the other Non-Executive Directors;
- together with the other Independent Non-Executive Directors, to evaluate the performance of the Chairman and agree development points required;
- along with the Chairman, to liaise with institutional shareholders and representative bodies during the year; and
- to assist shareholders in resolving concerns should alternative channels be inappropriate.

Non-Executive Directors

Collectively, and specifically within the remit of the Independent Non-Executive Directors, the Non-Executive Directors are responsible for the following aspects of governance of the Board:

- to scrutinise the performance of management in reaching agreed objectives and monitor reporting;
- to satisfy themselves on the integrity of financial information;
- to ensure financial controls and systems of risk management are robust and defensible;
- to determine appropriate levels of remuneration of Board members; and
- to determine the composition of the Board in respect of succession planning.

Company Secretary

The Company Secretary is responsible for the following in respect of effective Board operation:

- to ensure good information flows within the Board and its committees, between senior management and Non-Executive Directors;

- to facilitate Director induction and assisting with professional development; and
- to advise the Board through the Chairman of all corporate governance obligations and developments in best practice.

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

Environment supportive of challenge

The effective operation of the Board is dependent on the inherent checks and balances within the various Board roles. As highly qualified and successful individuals in their respective fields of endeavour, all Independent Non-Executive Directors influence, debate and contribute to decisions relating to the strategy of the company, its performance and its impact on stakeholders. The Independent Non-Executive Directors are evaluated and judged on the quality and content of their contributions to Board debate and are expected to offer alternative viewpoints and challenge perceptions and decisions as appropriate.

Meetings of the Board during the year

The Board met nine times during the year. Attendance of the current Directors at Board meetings and committee members at meetings of the committees on which they served during the year is set out in the table below:

	Board	Audit	Remuneration	Corporate Governance & Nominations	Bigger Picture
Number of meetings held in year	9	6	4	6	2
Director					
Nicholas Ferguson ^{(i)(ii)(vi)}	8	-	4	5	-
Jeremy Darroch, CEO	9	-	-	-	-
James Murdoch ^{(iv)(x)}	8	-	-	-	2
Andrew Griffith	9	-	-	-	-
Tracy Clarke ^{(i)(iv)(x)}	1	-	-	-	-
David DeVoe ^(vi)	8	-	-	-	-
Martin Gilbert ^{(i)(iii)(x)}	4	1	2	-	-
Andrew Higginson ^{(ii)(iii)(vi)}	8	6	-	4	-
Thomas Mockridge ^{(vi)(vii)}	7	-	-	-	-
Jacques Nasser ^{(i)(vi)(viii)}	5	-	3	-	-
Matthieu Pigasse ^{(iii)(x)}	4	1	-	-	-
Daniel Rimer ^{(i)(ii)(vi)(ix)}	6	-	3	1	-
Arthur Siskind ^{(ii)(vi)}	8	-	-	5	-
Lord Wilson of Dinton ^{(ii)(iv)}	9	-	-	6	2
David Evans ^(xi)	2	-	1	-	-
Allan Leighton ^(xi)	2	2	-	-	-
Dame Gail Rebeck ^(xi)	8	6	-	-	1

Notes:

- (i) Remuneration Committee member.
- (ii) Corporate Governance & Nominations Committee member.
- (iii) Audit Committee member.
- (iv) The Bigger Picture Committee member.
- (v) James Murdoch was unable to attend a Board meeting due to a prior business engagement.
- (vi) On 3 April 2012 two Board meetings were held. While it was not possible to convene all directors for the first meeting, most directors were able to attend the second meeting.
- (vii) Mr Mockridge was unable to attend a Board meeting due to a house move from Italy to the UK.
- (viii) Jacques Nasser was unable to attend two Board meetings due to conflicting meetings of the BHP Billiton Board, of which he is Chairman. He was also travelling on the day of 3 April 2012 and so unable to attend the two meetings called at short notice on that day.
- (ix) Mr Rimer could not attend one Board meeting due to a prior business commitment and was unable to attend another due to a family illness.
- (x) Matthieu Pigasse, Tracy Clarke and Martin Gilbert were appointed to the Board during the year.
- (xi) David Evans, Allan Leighton and Dame Gail Rebeck retired from the Board during the year.

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The Independent Non-Executive Directors held meetings without the executive directors present and the Chairman and SID held regular meetings with major shareholders during the year.

Directors & Officers' Insurance and Indemnity

The Company recognises that all Directors are equally and collectively accountable under the law for the proper stewardship of the Company's affairs. The Company maintains a Directors' and Officers' liability insurance policy which meets defence costs when the Director is not proved to have acted fraudulently.

Additionally, the Company's articles of association allow the Company to indemnify the Directors and deeds of indemnity have been issued to all the Directors of the Company.

EFFECTIVENESS

Board composition and independence

The Board currently comprises 14 Directors, made up of two Executive Directors and 12 Non-Executive Directors. At least half of the Board of Directors are determined to be independent by the Board in accordance with provision B.1.2 of the Code. Biographies of each of the Directors are set out on pages 40 to 41 and identify those Directors who are, in the view of the Board, independent within the meaning of the Code. On appointment the Chairman met the independence criteria set out in provision B.1.1 of the Code.

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

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

Appointments to the Board and succession planning

The Corporate Governance & Nominations Committee keeps the Board's balance of skills, knowledge, experience and the length of service of individuals under constant review. In respect of succession planning and supplementing the skill set of the Board, there is an established procedure for the appointment of Directors. In brief, the Committee identifies the set of skills and experience required and, with the assistance of external search agencies, selects individuals to take Board positions on review of their individual merits. The process adopted by the Committee

around Director recruitment is discussed in the Corporate Governance & Nominations Committee's report.

Board and committee changes during the year

On 18 October 2011, Andrew Higginson was appointed as a member of the Corporate Governance & Nominations Committee. At the Company's AGM on 29 November 2011, David Evans and Allan Leighton retired from the Board. On the same date, Martin Gilbert and Matthieu Pigasse were appointed to the Board as Independent Non-Executive Directors.

On 3 April 2012, the Company announced that James Murdoch had stepped down as Chairman and would continue to serve in his capacity as a Non-Executive Director of the Company. Nicholas Ferguson was appointed as Chairman, Thomas Mockridge was appointed as Deputy Chairman and Andrew Higginson was appointed as Senior Independent Non-Executive Director.

On 1 May 2012, Daniel Rimer replaced Nicholas Ferguson as Chairman of the Remuneration Committee. Nicholas Ferguson remains a member of the Remuneration Committee and Martin Gilbert was appointed as a member of the Committee. Matthieu Pigasse was appointed as a member of the Audit Committee. Also on 1 May 2012, Andrew Higginson replaced Lord Wilson as Chairman of the Corporate Governance & Nominations Committee. Lord Wilson remains a member of the Corporate Governance & Nominations Committee and Daniel Rimer was appointed as a member of this Committee. James Murdoch was appointed Chairman of The Bigger Picture Committee in place of Dame Gail Rebeck who stepped down as Chairman and as a member of the Committee.

On 11 June 2012, Martin Gilbert was appointed as a member of the Audit Committee. On 11 June 2012, Dame Gail Rebeck retired from the Board. On the same date, Tracy Clarke was appointed to the Board as an Independent Non-Executive Director and was also appointed as a member of the Remuneration and The Bigger Picture Committees.

Time commitment

Executive Directors are not allowed to take on the chairmanship of a FTSE 100 company, but are allowed to take up one external non-executive FTSE 100 appointment and retain any payments in respect of such appointments. All Non-Executive Directors are advised of the likely time commitments required on induction, and are expected to devote sufficient time for the effective discharge of their functions. The Company provides Non-Executive Directors with appropriate support and facilities for consideration of the Company's strategy and performance, and a dialogue with the Chairman is strongly encouraged so that any issues regarding conflicting commitments and time pressures can be addressed appropriately.

Induction & training

All new Directors receive an induction tailored to their individual requirements. The induction process involves meeting with all of the Company's Executive Directors and Senior Executives. This facilitates their understanding of the Group and the key drivers of the business' performance. During the year, Directors have received training in relation to the Listing Rules, directors' duties and competition law compliance. They have also received presentations from a number of areas of the business including Customer Group and Sky Sports.

Information provided to the Directors

The Company Secretary is responsible for ensuring good information flows within the Board and its committees, between senior management and Non-Executive Directors. In respect of each Board and Committee meeting, Directors are provided with a tailored Board pack at least one week prior to the meeting. To improve the delivery and security of Board papers, the Company has adopted an electronic system whereby Board packs are directly loaded onto Directors' iPads. Directors regularly receive additional information from the Company between Board meetings including a monthly report updating the Directors on the performance of the Group.

Board evaluation

An evaluation of the Board is undertaken on an annual basis to ensure that governance best practice standards are achieved and upheld. This year's internal Board evaluation has focused on Board composition and succession planning and was led by the Corporate Governance & Nominations Committee with regular reporting to and input from the Board.

The evaluation framework sought views on:

- the effectiveness of the Board;
- the mix of skills and experience on the Board;
- the performance of the Board's committees.

The evaluation is ongoing whilst the Board goes through a period of replacing Board members as they retire. The Board has decided that an externally facilitated Board Evaluation will be undertaken during the 2012/13 financial year. The development themes arising from the external evaluation process will be discussed in future reports.

Directors' reappointment

In respect of Code provision B.7.1, all Executive and Non-Executive Directors will retire and offer themselves for reappointment at the 2012 AGM of the Company in compliance with the Code.

Conflicts of interest

Under UK company law, all Directors must seek authorisation before taking up any position with another company that conflicts, or may possibly conflict, with the Company's interests. The Company's articles of association contain provisions to

allow the Directors to authorise situations of potential conflicts of interest so that a Director is not in breach of his duty under company law. All existing external appointments for each Director have been authorised by the Board and each authorisation is set out in a Conflicts Register. Directors are required to notify the Board of potential conflicts so that they can be considered, and if appropriate, authorised by the Board. In addition the Corporate Governance & Nominations Committee conducts an annual review of Directors' conflicts and reports its findings to the Board.

The Corporate Governance & Nominations Committee reviewed the Board's conflicts during the financial year and concluded that conflicts had been appropriately authorised and that the process for authorisation is operating effectively. The Corporate Governance & Nominations Committee and the Board will continue to monitor and review potential conflicts of interest on a regular basis.

ACCOUNTABILITY

Throughout this report and, as required, through other periodic financial statements, the Board is committed to providing shareholders with a clear assessment of the Company's position and prospects. The Audit Committee has responsibility for oversight of corporate reporting, risk management and the Company's relationship with its auditor. A full description of the Audit Committee's terms of reference is included in the Audit Committee Report on pages 50 to 53.

Significant risks to the business are kept under constant review and appropriate material controls are sanctioned and employed as appropriate. The Company's principal risks and examples of how we mitigate those risks are detailed on pages 28-31.

REMUNERATION

The Board believes in adopting remuneration packages that are appropriate for attracting, retaining and motivating Directors. The Remuneration Committee's report on Directors' remuneration on pages 54 to 63 explains how remuneration packages and performance incentives are employed by the Company at Board level. The Remuneration Committee is responsible for setting the Remuneration policy for the Board and ensures that no Director is involved in decisions affecting their own remuneration.

RELATIONS WITH SHAREHOLDERS

Shareholder communications

Presentations and webcasts on the development of the business are available to all shareholders on the Company's corporate website. The Company also uses email alerts and actively promotes downloading of all reports enhancing speed and equality of shareholder communication. The Company has taken full advantage of the provisions within the Companies Act 2006 allowing the website to be used as the primary

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means of communication with shareholders where they have not requested hard copy documentation. The shareholder information section on pages 129 to 130 contains further details on electronic shareholder communications together with more general information of interest to shareholders which is also included on the Company's corporate website.

Shareholder engagement

The Company is committed to maintaining and improving dialogue with shareholders in order to ensure that the objectives of both the Group and the shareholders are understood. A programme of meetings with institutional shareholders, fund managers and analysts takes place each year. The Company also makes presentations to analysts and investors around the time of the half-year and full-year results announcement; conference calls are held with analysts and investors following the announcement of the first quarter and third quarter results, and on occasion, following the announcement of the fourth quarter results, and presentations are made during the year to many existing or potential shareholders at investor conferences.

The Board views the AGM as an opportunity to communicate with private investors and sets aside time at these meetings for shareholders to ask questions of the Board. At the AGM, the Chairman provides a brief summary of the Company's activities for the previous year to the shareholders. All resolutions at the 2011 AGM were voted by way of an electronic poll. This follows best practice and allows the Company to count all votes rather than just those of shareholders attending the meeting. As recommended by the Code, all resolutions were voted separately and the voting results, which included all votes cast for, against and those withheld, together with all proxies lodged prior to the meeting, were indicated at the meeting and the final results were released to the London Stock Exchange as soon as practicable after the meeting. The announcement was also made available on the Company's corporate website. As in previous years, the proxy form and the announcement of the voting results made it clear that a 'vote withheld' is not a vote in law and will not be counted in the calculation of the proportion of the votes for or against the resolution.

CORPORATE GOVERNANCE & NOMINATIONS COMMITTEE



Chairman's overview

We have had an active year, securing the appointment of three new Independent Non-Executive Directors, Martin Gilbert, Matthieu Pigasse and Tracy Clarke to succeed David Evans, Allan Leighton and Dame Gail Rebeck on

their retirement from the Board. We also have a new Chairman, Nicholas Ferguson, who replaced James Murdoch in April 2012.

Our orderly programme of replacing Independent Non-Executive Directors as they retire will continue into the 2012/13 financial year as Jacques Nasser has indicated that he does not intend to stand for reappointment at the Company's 2012 AGM. It was Lord Wilson of Dinton's intention to retire at this year's AGM. However, he has agreed to stand for reappointment in order to ensure that the Board has the correct balance of Independent Non-Executive Directors during the period in which we expect his replacement to be appointed. This will ensure the Company's continued compliance with corporate governance best practice.

Succession planning is a key part of our annual programme and for each position we have reviewed the existing skill-set on the Board, specifically in terms of background, knowledge, experience and the diversity of the Board. We have balanced this with the Company's strategic direction and objectives to ensure that each appointment strengthens the Board so that it can help and challenge management to grow and take the business forward.

We have used external consultants to help us with the recruitment process and members of the Corporate Governance & Nominations ("CGN") Committee and the Chief Executive Officer have met with a number of candidates throughout the year who met the Committee's criteria. This programme will continue into the 2012/13 financial year. The CGN Committee reviewed the roles and responsibilities of Directors and the membership of the Board and its Committees and a number of changes were recommended to the Board during the year. Nicholas Ferguson has been appointed Chairman, Thomas Mockridge has been appointed as Deputy Chairman and I have been appointed as the Senior Independent Non-Executive Director.

This year's Board evaluation process has focussed on the composition of the Board and its committees and succession planning. In line with Corporate Governance best practice, the CGN Committee has decided to undertake an external board evaluation during the 2012/13 financial year which will ensure that the views of our new Independent Non-Executive Directors are captured as the Board is refreshed.

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

[Andrew Higginson](#)
Committee Chairman

Committee membership

The CGN Committee is chaired by Andrew Higginson and its other members are Lord Wilson of Dinton, Nicholas Ferguson, Daniel Rimer and Arthur Siskind. The majority of the members of the CGN Committee are Independent Non-Executive Directors in compliance with the Code.

Changes to the membership of the Committee during the year

Lord Wilson of Dinton stepped down as Chairman of the CGN Committee on 1 May 2012 and Andrew Higginson was appointed in his place. Lord Wilson remains a member. Daniel Rimer was appointed as a member of the CGN Committee on 1 May 2012.

The role of the Committee

The Chairman reports regularly to the Board on its activities. Its main duties include:

- the identification and nomination, for approval by the Board, of candidates to fill Board vacancies as they arise;
- the drafting of requirements for a particular appointment to the Board, taking into consideration the present balance of skills, knowledge and experience on the Board;
- the regular review of the structure, size and composition of the Board and to recommend any changes to the Board or succession planning;
- the provision of a formal letter of appointment, setting out clearly what is expected of new appointees to the Board, in terms of time commitment, term of office and committee service as well as their duties and liabilities as a Director, including details of the Company's corporate governance policies and Directors' and Officers' liability insurance cover; and
- the monitoring of the Company's compliance with applicable Corporate Governance Codes and other similar requirements.

Activities during the year

During the year, the CGN Committee reviewed the Company's Corporate Governance Memorandum which includes the terms of reference of the Board and its Committees and recommended amendments to the Board to reflect best practice. The revised terms of reference were approved by the Board and are available on the Company's corporate website.

The CGN Committee has reviewed the composition of the Board and its Committees and a formal recruitment process has been followed to identify candidates who fulfil the Board's criteria. This has been debated by the Board, and the CGN Committee and the Chief Executive Officer met with a number of potential candidates during the year. An external recruitment consultancy, JCA Group, has been used to help the CGN Committee identify possible candidates and run the recruitment process.

The CGN Committee recommended three candidates to the Board during the year, Martin Gilbert, Matthieu Pigasse and Tracy Clarke. All of these candidates have different backgrounds, experience and skill sets which will help strengthen the Board and improve its diversity.

The Board and the CGN Committee have noted the findings of the Davies Review. It is the CGN Committee's intention to increase female representation on the Board. Below Board level, women account for 22% of senior management, which is an increase from recent years reflecting the Company's focus on ensuring that women are fairly represented in leadership and management positions. During the year the Company won the Women of the Future Corporate Award 2011.

The CGN Committee also reviewed the independence of the Non-Executive Directors and recommended to the Board that there be no changes to the independent status of the current Independent Non-Executive Directors. The Non-Executive Directors who are considered by the Board to be independent are clearly identified on pages 40 to 41. The Board's criteria for determining whether a Non-Executive Director is independent are set out in the Memorandum on Corporate Governance which can be found on the Company's corporate website.

The CGN Committee's review took into consideration the fact that Jacques Nasser had served on the Board for more than nine years and it is his intention to retire at the Company's 2012 AGM. The CGN Committee's review also took into consideration the fact that by the date of the Company's 2012 AGM Lord Wilson of Dinton will have served on the Board for more than nine years. Provision B.1.1 of the Code suggests that serving more than nine years could be relevant to the determination of a Non-Executive Director's independence. The CGN Committee concluded that Lord Wilson of Dinton continued to demonstrate the essential characteristics of independence expected by the Board and that there are no relationships or circumstances that are likely to affect, or could appear to affect, his judgment.

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

THE BIGGER PICTURE COMMITTEE



Chairman's overview

We are building a sustainable business because this creates value for our customers and is critical to building long-term success. The Bigger Picture Committee provides strategic leadership for the work we do at Sky to contribute positively

to society. From acting responsibly in our day-to-day operations to inspiring action across our focus areas of Environment, Sport, Arts and Schools, we make a difference in the communities where we live and work, and we give our customers and our people more reasons to join Sky and stay with us to enjoy all that we offer.

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Over the year we have continued to contribute to the UK economy, investing in the growth and success of the creative industries. We've continued to make sure our products and services can be used by everyone, managed our environmental impact, created valuable partnerships with our suppliers, and done even more to make Sky a great place to work.

We reached our £4m fundraising target for Sky Rainforest Rescue, our partnership with WWF to help save a billion trees in the Amazon rainforest, six months ahead of target. We have approved the extension of this work until 2015, and will focus on promoting sustainable alternatives to deforestation and using our position as a broadcaster and media company to drive even greater awareness in the UK and Ireland.

We have also agreed four more years of support from grassroots to elite cycling through our partnership with British Cycling, and will continue to increase participation by backing the leading riders through our support of Team Sky and inspiring the next generation to get involved. Sky is now one of the largest investors in arts on screen through the Sky Arts channels and on the ground through the Sky Arts Ignition Series which is creating new ground-breaking art works, events and performances. In February 2012 we were pleased to announce Tate Liverpool as the first of six partners and are also looking forward to seeing the work of the five talented young artists emerge over the coming year as we support them with mentoring and funding.

I am proud that for the first time we have been identified as one of eleven globally leading companies in the Publishing Media sector of the Dow Jones Sustainability Index. This recognition for what we do across Sky to make sure we contribute long-term value to society is important to us, our investors and to the markets in which we work.

Lastly, I would like to thank Dame Gail Rebeck for her leadership of The Bigger Picture Committee as it has evolved over her tenure as the Chair.

James Murdoch

Committee Chairman

Committee Membership

The Bigger Picture Committee is chaired by James Murdoch, and its other members are Tracy Clarke and Lord Wilson of Dinton.

Changes to the membership of the Committee during the year

Dame Gail Rebeck resigned as Chairman of The Bigger Picture Committee and as a member on 1 May 2012 and James Murdoch was appointed Chairman in her place. Tracy Clarke became a member of The Bigger Picture Committee following her appointment to the Board on 11 June 2012.

The role of the Committee

The Chairman of The Bigger Picture Committee reports regularly to the Board on its activities. The main duties of The Bigger Picture Committee include:

- reviewing and approving The Bigger Picture strategy;
- seeking external stakeholders' views on The Bigger Picture strategy and performance;
- reviewing and approving the annual reporting of The Bigger Picture activities;
- monitoring progress in achieving The Bigger Picture objectives and key performance indicators;
- ensuring the resources and skills are available to implement The Bigger Picture strategy; and
- providing the Board with an overview of the social, environmental and ethical impacts of the Company's activities and how they are being managed.

An overview of the Company's approach to being a responsible business day to day and inspiring our customers to take action to make a difference is provided in the section on 'How we do business' on pages 19 to 27 of the Directors' report – Business review.

AUDIT COMMITTEE



Chairman's overview

During the year, the Audit Committee continued to focus on the financial performance of the Company, internal audit, risk management, compliance and financial governance. The Audit Committee has a standing agenda

which it reviews and works through each year.

This year the Audit Committee has received a number of presentations from the management of different operating units to improve its understanding of their operations and the risks they face and how those risks are managed.

The Audit Committee has also reviewed the Group's implementation of adequate procedures in relation to the Bribery Act 2010, received presentations from the Chairman of the Data Governance Committee and received regular reports from the Company's internal audit function and external auditor.

During the year the Company concluded a review of editorial practices at Sky News. While there had been no allegation of impropriety at Sky News, the Company undertook the review at its instigation as part of its commitment to acting responsibly across all areas of Sky's business. Reporting to the Audit Committee, the process included the review of emails of a

number of key Sky News journalists by the Company's external legal advisors, Herbert Smith. The review concluded in April 2012 and found no evidence of impropriety or cause for concern. Separately, the Audit Committee undertook a review of the way in which the Company approached two separate investigations undertaken by Sky News. In each of the investigations a Sky News journalist accessed the email of individuals suspected of criminal activity. Following a thorough review of each of those cases, the Audit Committee concluded that the action was justified in the public interest and subject to proper editorial oversight.

We welcomed two new members to the Audit Committee, Martin Gilbert and Matthieu Pigasse, who both have extensive recent and relevant financial experience in the fund management and investment banking sectors. Allan Leighton, a former Chairman of the Audit Committee, and Dame Gail Rebeck retired from the Board and as members of the Audit Committee during the year and I would like to thank them both for their valued contribution to the work of the Audit Committee.

[Andrew Higginson](#)
Committee Chairman

Committee Membership

The Audit Committee, which consists exclusively of Independent Non-Executive Directors, in compliance with the Code, has clearly defined terms of reference as laid down by the Board. The Audit Committee is chaired by Andrew Higginson and the other members are Matthieu Pigasse and Martin Gilbert. The CFO and representatives from the external auditor and the internal audit department attend meetings at the request of the Audit Committee. The CEO and other business and finance executives attend meetings from time to time. The Audit Committee Chairman reports regularly to the Board on its activities.

David DeVoe and Arthur Siskind have a standing invitation to attend meetings of the Audit Committee. Their attendance at these meetings is as observers only and in a non-voting capacity.

Changes to the membership of the Committee during the year

Allan Leighton stepped down as a member of the Audit Committee on 29 November 2011 and Dame Gail Rebeck stepped down on 11 June 2012. Matthieu Pigasse was appointed as a member of the Audit Committee on 1 May 2012 and Martin Gilbert was appointed on 11 June 2012. There was a period during the year between Allan Leighton's retirement from the Board and the Audit Committee on 29 November 2011 and Matthieu Pigasse's appointment as a member of the Audit Committee on 1 May 2012, that the Audit Committee's membership fell to two Independent Non-Executive Directors. The meeting of the Audit Committee held on 30 January 2012 was held prior to Mr Pigasse's appointment to the Committee. There were no other meetings held without three Independent Non-Executive Directors being present from 29 November 2011 to 1 May 2012.

The role of the Committee

The Chairman reports regularly to the Board on its activities. Its main duties include:

- making recommendations to the Board in relation to the appointment, reappointment and removal of the external auditor and discussing with the external auditor the nature, scope and fees for the external auditor's work;
- reviewing and making recommendations to the Board regarding the approval, or any amendment to, the quarterly, half year and annual financial statements of the Group;
- reviewing the Group's significant accounting policies;
- reviewing the Group's systems of internal control;
- reviewing the Group's treasury policies;
- recommending the appointment of the Group's Director: Audit, Risk Management and Compliance;
- reviewing the audit plan and findings of the Group's internal audit function;
- monitoring and reviewing the effectiveness of the Group's internal audit function;
- approving all non-audit services provided by the Group's external auditor in accordance with the Group's policy;
- monitoring the Group's whistle-blowing policy;
- News UK Nominees Limited, a subsidiary of News Corporation, is a major shareholder in the Group. The Audit Committee receives, on a quarterly basis, a schedule of all transactions between companies within the News Corporation group and the Group, and any other related party transactions, showing all transactions which have been entered into during the year and which cumulatively exceed £100,000 in value;
- Audit Committee approval is required for the entering into by the Group of a commitment or arrangement (or any series of related commitments or arrangements) with News Corporation or any of its subsidiaries, or any other related party which involves or could reasonably involve the payment or receipt by the Group of amounts equal to or in excess of £10 million, but not exceeding £25 million in aggregate value with News Corporation. Any transaction in excess of £25 million in aggregate value must be submitted to the Audit Committee and, if approved by the Audit Committee, must also be submitted to the full Board for approval.

The Audit Committee members have considerable financial and business experience and the Board considers that the membership as a whole has sufficient recent and relevant financial experience to discharge its functions. In addition, the

Corporate governance report

continued

Board has determined that each member of the Audit Committee has sufficient accounting or related financial management expertise as required by the UK Listing Authority's Disclosure and Transparency Rules.

Activities during the year

The Audit Committee met six times during the financial year. Meeting agendas were organised around the Company's financial reporting cycle and items covered were as follows:

Financial management and reporting

- received regular updates from the CFO on the financial performance and financial management of the Group;
- reviewed the Company's Annual Report, half-yearly results and interim management statements;
- reviewed the Group's accounting policies; and
- received quarterly reports from the treasury function on the funding, liquidity and operational capabilities of the Group and compliance with treasury policies.

Internal control

- considered the effectiveness of the Group's internal controls over financial reporting;
- reviewed the internal audit department's resources and annual audit plan;
- reviewed quarterly reports from internal audit on the results of its audit work and management's implementation of its recommendations;
- received quarterly updates from internal audit on the status of Senior Accounting Officer (SAO) certification work to ensure SAO compliance; and
- evaluated the effectiveness of the internal audit department.

External Audit Matters

- received regular reports from the external auditor;
- reviewed and approved the 2011/12 audit work plan;
- received regular updates on the use of non-audit services provided by the external auditor and ensured that all services and fees were approved in accordance with the Group's policy;
- reviewed the effectiveness, quality of work and independence of the external auditor; and
- approved the re-appointment, remuneration and engagement letter of the external auditor.

Risk management

- reviewed the Group's Risk Register;
- received risk presentations from various business areas; and

- approved the Group's Risk Management Policy and Standards.

Other

- reviewed quarterly security updates which include whistle-blowing;
- reviewed quarterly related party transactions reports; and
- reviewed the Group's implementation of adequate procedures in relation to the Bribery Act 2010.

The Audit Committee also received updates from the Director of Group Security, the Chairman of the Data Governance Committee and the Director of People on health and safety.

The external auditors attended five meetings of the Audit Committee during the year. The Director: Audit, Risk Management and Compliance has direct access to the Committee Chairman and the external audit partner.

Internal control and risk management

The Directors have overall responsibility for establishing and maintaining the Group's systems of internal control and risk management and for reviewing their effectiveness. These systems are designed to manage, and where possible eliminate, the risk of failure to achieve business objectives and to provide reasonable, but not absolute, assurance against material misstatement or loss. There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group in accordance with the revised guidance on internal control issued by the Financial Reporting Council in October 2005. During the period under review no significant failings or weaknesses were identified.

The Audit Committee, on behalf of the Board, considers the effectiveness of the operation of the Group's systems of internal control and risk management during the year and this review has been carried out for the year ended 30 June 2012 and up to the date on which the financial statements were approved. This review relates to the Company and its subsidiaries and does not extend to joint ventures. The Audit Committee meets on at least a quarterly basis with the Group's Director: Audit, Risk Management and Compliance and the external auditors.

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

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

team. The results of the SAO testing are reported to the Audit Committee on a quarterly basis.

There are risk registers which identify the risks faced by the Group and these are consolidated into a Group Risk Register. The registers detail the controls that manage the risks and, where necessary, the action plans to mitigate the risk exposure. The business develops the action plans and the internal audit team monitor their implementation. The Audit Committee formally reviews the Group Risk Register twice a year and there is a rolling programme where senior executives from the business present their risk management plans. The Group's principal risks and uncertainties are detailed in the Business Review.

The internal audit team provides objective assurance as to the effectiveness of the Group's systems of internal control and risk management to the Group's operating management and to the Audit Committee.

Disclosure controls and procedures

The Company maintains disclosure controls, procedures and systems that are designed to ensure that information required to be disclosed as part of the Company's UK listing obligations is accumulated and communicated to management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosures.

The Company has established a Disclosure Committee. The committee is chaired by the Company Secretary and its members consist of senior managers from group finance, legal and investor relations. It has responsibility for considering the materiality of information (including inside information) and, on a timely basis, determination of the disclosure and treatment of such information. The Disclosure Committee also has responsibility for overseeing the process for the formal review of the contents of the Company's Annual Report.

Changes in internal controls

No change in the Group's internal control over financial reporting has occurred during the year ended 30 June 2012 that has materially affected, or is reasonably likely to materially affect, the Group's internal control over financial reporting.

Use of external auditor

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

- those services which the auditor is not permitted to provide;
- those services which are acceptable for the auditor to provide and the provision of which has been pre-approved by the Audit Committee; and
- those services for which the specific approval of the Audit Committee is required before the auditor is permitted to provide the service.

The policy defines the types of services falling under each category and sets out the criteria which need to be met and the internal approval mechanisms required to be completed prior to any engagement. An analysis of all services provided by the external auditor is reviewed by the Audit Committee on a quarterly basis.

For the year ended 30 June 2012, the Audit Committee has reviewed audit independence and scope of non-audit services and independence safeguards with Deloitte LLP, the Group's external auditor. As part of the review, the Audit Committee has received and reviewed confirmation in writing that, in Deloitte LLP's professional judgment, Deloitte LLP is independent within the meaning of all UK regulatory and professional requirements and the objectivity of the audit engagement partner and audit staff is not impaired.

The Audit Committee was satisfied throughout the year that the objectivity and independence of Deloitte LLP was not in any way impaired by either the nature of the non-audit related services undertaken during the year, the level of non-audit fees charged, or any other facts or circumstances. Services provided during the year were approved by the Audit Committee. An analysis of auditor remuneration is disclosed in note 6 to the consolidated financial statements.

The appointment of Deloitte LLP as the Group's external auditor (incumbents since 2002) is kept under review. The Audit Committee has approved the external auditor's remuneration and terms of engagement and is fully satisfied with the performance, objectivity, quality of challenge and independence of the external auditor. The Audit Committee has recommended that a resolution to reappoint the external auditor as the Company's statutory auditors be proposed at the Company's forthcoming AGM. The external auditor is required to rotate the audit partner responsible for the engagement every five years. The current lead partner started his term of office in relation to the 2010/11 financial year.

Data Governance

The Data Governance Committee (the "DG Committee") reports to the Audit Committee. The role of the DG Committee is to ensure that appropriate procedures and controls are in place to ensure that the Group processes personal data in accordance with Data Protection laws, and that individuals are able to exercise their rights under such laws. A set of policies has been updated and further developed under the DG Committee to outline and promote consistent standards and practices in the collection and use of personal data across the Group. The policies also set out the responsibilities of employees in managing personal data and the escalation process to be followed, should employees become aware of any breach of policy.

Directors' responsibilities

The responsibilities of the Directors are set out on page 67.