Independent Auditor's report

Independent auditor's report to the members of Sky plc

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 June 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB);
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of Sky plc (the 'Parent Company') and its subsidiaries (the 'Group') which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and Parent Company balance sheets;
- the consolidated and Parent Company statements of changes in equity;
- the consolidated and Parent Company cash flow statement;
- the statement of accounting policies; and
- the related notes 1 to 29.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to either the Group or the Parent Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters

The key audit matters that we identified in the current year were:

- Revenue recognition for bundled items in retail subscription revenue;
- Entertainment programming expense; and
- Capital project accounting.

Materiality

The materiality that we used in the current year was £65 million which was determined on the basis of normalised profit before tax.

Scoping

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Our audit scope is consistent with the prior year and includes the Group's UK and Irish, German and Austrian, and Italian operations.

Significant changes in our approach

There have been no significant changes in our approach for the period ended 30 June 2017 compared with the prior period.

Conclusions relating to principal risks, going concern and viability statement

We have reviewed the directors' statement regarding the appropriateness of the going concern basis of accounting contained on page 31 of the strategic report and within note 1b to the financial statements and the Directors' statement on the longer-term viability of the Group contained within the strategic report on page 31.

We are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 28-30 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation on page 28 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' statement on page 31 and in note 1b to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group and the Parent Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- the Directors' explanation on page 31 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions; or
- whether the Directors' statements relating to going concern and the prospects of the company required in accordance with Listing Rule 9.8.6R(3) are materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to add or draw attention to in respect of these matters.

We agreed with the Directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Independent Auditor's report – continued

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How the scope of our audit responded to the key audit matter
Revenue recognition for bundled items in retail subscription revenue Sky retails subscription packages to customers which include multiple elements and may include discounts and offers, for example TV subscription, hardware and telephony services sold for a single package price. The allocation of retail subscription revenue to each element of a bundled transaction is complex and requires judgement, as described in the Audit Committee Report on page 45 and in the Group's critical accounting policies on page 94. There is a risk that inappropriate allocations could lead to non-compliance with accounting standards and incorrect acceleration or deferral of revenue. As required by ISAs (UK) we have identified a fraud risk in respect of revenue. Our identified risk is in respect of manual adjustments made to the system-based revenue profile of bundled items in Retail subscription revenue.	Our procedures performed included: • Evaluating the Group's revenue recognition policy and management's current year accounting assessment for bundled transactions; • Confirming the implementation of the Group's policy in each territory by performing tests to confirm our understanding of the process by which revenue is calculated by the relevant billing systems; • Assessing the different product bundles and offers in the year for the risk of revenue acceleration or deferral; • For those assessed as higher risk of revenue deferral, performing additional assessment of the accounting treatment of the bundle by confirming the fair value of different elements to appropriate evidence; • Assessing whether revenue should be accelerated or deferred based on the relative fair value of elements delivered at different points during the contract, when compared to the revenue calculated by the relevant billing system; • Where differences arose, auditing the valuation and accuracy of those adjustments to align revenue recognised with the Group's accounting policy; In respect of the identified risk regarding fraud; • Understanding the nature of adjustments and resulting journals that are made to the systematic billing profile; and • Performing focused audit procedures on a sample of these journals, auditing the validity and valuation of these adjustments.

Key observations

Based on our work, we consider that revenue recognition for bundled items in retail subscription revenue, including consideration of manual adjustments, has been recognised appropriately and is in accordance with the Group's revenue recognition policy.

Key Audit Matter	How the scope of our audit responded to the key audit matter
Entertainment programming expense Determining the timing and amount of the recognition of general entertainment programming expense recognised in the period requires judgement in selecting the appropriate recognition profile and ensuring that this profile achieves the objective of recognising programming inventory expense in line with the way that it is consumed by the Group, as set out in the Audit Committee Report on page 45 and in the Group's critical accounting policies on page 95. Entertainment programming expense involves more judgement than other types of programming due to the number of qualitative factors involved in the selection and application of an appropriate expense profile as follows: • time period and frequency with which the programme is expected to be utilised on the Group's linear and non-linear services; • expectations of the number of viewers a programme is likely to achieve for each broadcast on the Group's linear channels; • potential benefits associated with utilising programming; and • the relative values associated with linear channel and non-linear rights. There is a risk that the recognition profile selected by management for entertainment programming does not correctly recognise the expense in line with the way that the Group consumes the inventory.	The level of expenditure on general entertainment programming varies in each territory, and our procedures focused on entertainment spend in the UK and Italy, which are significant to the Group. We examined the method for expensing general entertainment programming inventory, taking into account the differing genres of programmes, any significant changes to viewing patterns and industry benchmarks. Our procedures performed included: • benchmarking management's policy against industry practice in the UK and Italy; • comparing the expense profile determined by management with that which would be indicated by viewing trends (used as a proxy for value from broadcast) in addition to other qualitative factors such as brand and/or channel value; • assessing the design and implementation of controls over the recognition and expensing of general entertainment programming; and • assessing the consistency and completeness of the disclosures in respect of the change in recognition of relicensed content.
Key observations Based on our work we are satisfied the accounting for entertainment programming expenses is appropriate and in line with the Group's accounting policies.	
Capital project accounting The Group's spending on capital projects is material, as shown by the total value of additions in notes 10 and 11. The assessment and timing of whether assets meet the capitalisation criteria set out in IAS 16 *Property, Plant and Equipment and IAS 38 Intangible Assets* requires judgement, as set out in the Audit Committee Report on page 45 and in the Group's critical accounting policies on page 95. In addition, determining whether there is any indication of impairment of the carrying value of assets being developed or replaced also requires judgement in assessing performance against the investment business case. As a result, there is a risk that expenditure is inappropriately capitalised against relevant accounting guidance and that assets not yet in use are not recoverable at their carrying value.	Our procedures performed included: • assessing the design and implementation and testing the operating effectiveness of controls in respect of the capitalisation of assets and the identified potential indicators of impairment; • performing sample tests of capital expenditure projects including an examination of management's assessment as to whether the project spend met the recognition criteria and reviewing the project status to check for indicators of impairment; and • for a sample of capital projects we have developed an understanding of the business case and have challenged key assumptions and estimates, verifying capital project authorisation and tracing project costs to appropriate evidence.
Key observations Based on our work, we are satisfied that the accounting for capital projects is appropriate and in line with the Group's accounting policies.	

Independent Auditor's report – continued

Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

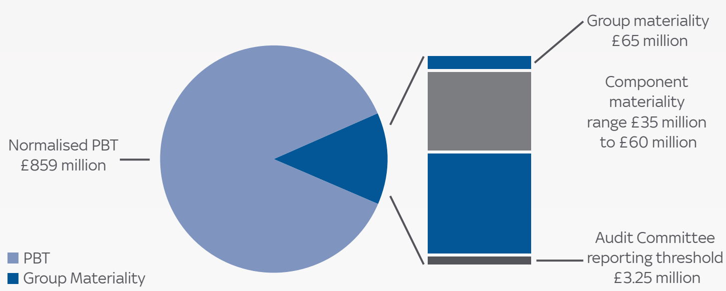
Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Group materiality
£65 million (2016: £50 million)

Basis for determining materiality
This represents 8% of normalised pre-tax profit after removing advisory fees and additional costs incurred in respect of the 21st Century Fox Offer (2016: 7%), 8% of statutory profit before tax (2016: 7%), and 5% of adjusted profit before tax (2016: 4%).

Rationale for the benchmark applied
As Sky plc is a public interest entity with listed equity we determined normalised pre-tax profit after removing fees incurred in respect of the 21st Century Fox Offer to be the most appropriate benchmark.

The Group's adjusted profit before tax measure further excludes additional items including the impact of amortisation of acquired intangible assets, integration and operating efficiency, derivatives not qualifying for hedge accounting and the tax effect of these adjusting items (see note 7 for management's definition and reconciliation to adjusted profit for further details).



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £3.25 million (2016: £2.5 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our audit scope is consistent with the prior year and includes the Group's UK and Irish, German and Austrian, and Italian operations, all of which were subject to a full scope audit for the year ended 30 June 2017. As a result all of the Group's assets, revenue and adjusted profit before tax are subject to an audit either scoped by our component audit teams to their respective component materiality or by the Group audit team. The Group audit team directed, supervised and reviewed the work of the component auditors for Germany and Austria and for Italy, which involved issuing detailed instructions, holding regular discussions with component audit teams, making multiple visits to each location throughout the year, performing detailed file reviews and attending local audit meetings with management.

Audit work performed for the Group's UK and Irish operations was performed by the Group and UK audit team. The Group audit partner visited all components, attending key meetings with both component auditors and local management.

Audit work in UK and Ireland, Italy, and Germany and Austria was performed at levels of materiality which were lower than Group materiality and ranged from £35 million to £60 million, depending on the component's contribution to the Group's profit before tax.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- Fair, balanced and understandable – the statement given by the Directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit committee reporting – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the audit committee; or
- Directors' statement of compliance with the UK Corporate Governance Code – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

Responsibilities of Directors

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the Parent Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors'Remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Other matters

Auditor tenure

The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 15 years, having been appointed by the Audit Committee in 2002 and covering the years ending 2002 to 2017.

Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

Paul Franek FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor London
26 July 2017