

21ST CENTURY FOX/SKY MERGER INQUIRY (PHASE 2)

Summary of hearing with Jacques Nasser, Independent Director of 21ST Century Fox on 25 October 2017

Introduction

1. Jacques Nasser (JN) confirmed that he has been an independent director on the board of 21st Century Fox (21CF) since June 2013.
2. JN stated that he had been on the board of several FTSE companies including Ford. These companies also included family origin companies. JN confirmed that he had also previously sat on the board of Sky.

Time at Sky

3. JN said that he had joined Sky's board following encouragement by an acquaintance of his, [REDACTED].
4. JN said that Sky was a struggling company at the time and that he had always been interested in technology companies like Sky. JN stated that after some deliberating and encouragement from members of the Sky board, he eventually joined the Sky board.
5. JN stated that prior to joining Sky he met Rupert Murdoch on a few social occasions, but had not known him very well, beyond this.
6. JN stated that in his first year at Sky as an independent director he shared his concern with Rupert Murdoch that Sky was struggling. JN said that Rupert Murdoch believed however, that in the next ten to twenty years Sky would be successful and Rupert Murdoch was therefore willing to continue to support Sky.
7. JN stated that family-owned companies generally tend to have a long-term perspective and their interests are more aligned with longer term shareholders. They are more willing to support businesses that may not be financially successful in early days because of this longer-term outlook.
8. JN stated that, in his opinion, the success of Sky was in large part attributable to James Murdoch, who during his time as CEO of Sky drove the reputation, the marketing, the technology, the business plan and the strategy. JN also

stated that James Murdoch was one of the most straightforward, high-values people he had ever met.

Rationale behind 21CF/Sky merger

9. JN stated that the reasons behind the merger are as follows:
 - (a) Allowing the merged companies to become a more globalized company to be able to compete with the likes of Google and Amazon. Sky is becoming prominent in Europe and hence this would allow 21CF to increase its reach through purchasing Sky.
 - (b) Enabling 21CF to learn from Sky's direct experience with dealing with customers.
 - (c) Enabling the two companies to combine synergies, in terms of enabling some of the strong attributes of Sky (in particular the strength and talent of its management team) to flow through to the rest of 21CF.

Role of independent directors at 21CF

10. JN stated that one of his most important roles as independent director was to represent the long-term interests of 21CF's public shareholders. JN stated that in representing the long term-interests of shareholders he regularly communicates with the main public shareholders either in person or telephone. There is also an outreach programme that allows shareholders to communicate with the independent directors. Independent directors engage with the shareholders on issues such as compensation and governance.
11. JN stated that, in addition, his role as independent director at 21CF involved risk management, oversight, compliance, partnering with executive teams and addressing company reputational issues.

Oversight of 21CF

12. JN said that the boards also form committees that oversee certain company matters. 21CF has, for example, governance committees and audit committees. These are all run by independent directors.
13. JN stated that the board meets at least five times a year and this involves meetings with executives charged with the day to day management of 21CF's various divisions.

14. JN stated that the independent directors have additional, separate meetings without the executive management team. They also have meetings with different committees without the involvement of other committees. JN stated that such processes allow good governance as it allows different groups in the company to transparently present their views to independent directors.
15. JN stated that both 21CF and Sky have very similar governance procedures, in line with companies of their size.
16. JN stated that as an independent director he had not been involved in editorial matters for either Sky News or Fox News.

Oversight of Fox News

17. JN stated that Fox News was the brainchild of Roger Ailes who saw a lucrative opportunity in the market to create a channel that represented a conservative voice in the United States.
18. JN stated that Fox News was treated slightly differently within the wider group of business divisions. Fox News has a very successful business model that the 21CF board kept intact as this was a positive for shareholder interest. The management decisions were therefore left to a more local level.
19. JN stated that the board did not get involved in Fox News at the editorial level. JN said that he had met Roger Ailes a few times but strictly for the purposes of discussions on commercial issues. There was no discussion about editorial issues at Fox News.
20. JN stated that there is now a compliance group including former public prosecutors headed by Gerson Zweifach, who is the 21CF group chief legal counsel. The compliance group reports to the independent board of directors and keeps it updated of any matters arising or that could require escalation.
21. JN stated that in the United States, the public has already made its mind up on which political party it will support. News media is therefore unlikely to influence the public on voting decisions in the US.

Sexual harassment allegations at Fox News

22. JN stated that prior to the 21CF board being informed of the sexual harassment allegations against Roger Ailes, historically, the 21CF board had not been made aware of any allegations being made.
23. JN stated that once the board knew of the harassment allegations, it reacted quickly, and it was within days that Roger Ailes had departed from the

company, followed in subsequent months by other top management members at Fox News, including the Chief Financial Officer, Chief Operating Officer and Head of HR.

24. JN stated that when the board was informed of the harassment allegations against Bill O'Reilly, it was advised that the situation was different than the allegations involving Roger Ailes. This was in part related to there being an employment agreement with Bill O'Reilly which stated he could not be dismissed on the basis of an allegation unless that allegation was proved in court. Further, at the time of the allegations being raised, the evidence was uncertain.
25. JN confirmed that the board knew of the settlements Bill O'Reilly had made with various accusers but did not know the value of those settlements. The board had come to know of the settlements via the audit committee, which was reported to by Gerson Zweifach. JN stated that information on exact values was withheld by both Bill O'Reilly and the individual complainant.
26. JN stated that there was debate among the board members regarding when to dismiss Bill O'Reilly. Some wanted to dismiss him immediately, whereas some wanted to wait for his employment contract for renewal.
27. JN confirmed that once Bill O'Reilly's contract was ready for renewal, the board ensured that a clause was inserted to state that he could be dismissed on the grounds of an allegation against him without it having to be proved in court.

Corporate governance and compliance procedures at Fox News

28. JN acknowledged that perhaps, with the benefit of hindsight, there could have been better governance structures in place at Fox News to ensure that the board came to know of allegations at an earlier stage. However, he confirmed that changes had subsequently been made to address this. JN stated that it is never easy to ascertain what the best governance structure for a company is and in his experience different companies have different processes in place as suits the nature of the business operations.
29. JN stated that historically the 21CF board had been focused on addressing concerns such as fraud, corruption and mishandling of assets that may have potentially caused an oversight with regards to probing deeper into HR issues.
30. JN stated that when Roger Ailes led Fox News, HR issues would have been dealt with within Fox News, and there were no claims that had been escalated to the 21CF board or the 21CF top executive.

31. JN confirmed that, even prior to finding out about the allegations, individuals with operating roles at Fox would deliver presentations to the board. JN does not recall Roger Ailes personally presenting to the board in his capacity as CEO of Fox News at the time.
32. JN stated that as a result of the sexual harassment allegations, the 21CF board has now implemented processes and structures to ensure allegations are escalated to the board quicker and to change the culture within the entire company to prevent harassment from occurring in the first place. He added that, in his view, it would not be conceivable that anyone at 21CF or Fox News would now believe that he or she may misbehave with impunity.
33. JN identified that these changes in processes and structures include:
 - (a) The HR division is now centralised for all business divisions. Previously, Fox News had its own HR department which dealt with all of its HR matters. With a separate centralized HR division, all reported issues now go through to the 21CF board whereas previously, the issues would have remained within Fox News level.
 - (b) There is a Chief Compliance Officer who reports to the 21CF board.
 - (c) Internal videos hosted by James and Lachlan Murdoch that encourage staff to raise complaints and seek to change the culture within the company, have been distributed to employees at Fox News.
 - (d) There is a whistle-blower programme encouraging people to come forward with complaints.
 - (e) Staff surveys to measure staff experience and help encourage people to come forward with complaints.