

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

Summary of hearing with Sky Plc on 30 November 2017

Background

1. Sky Plc (Sky) identified three pillars which underpin how Sky News operates and ensures its editorial independence. The first was people and the culture of independence at Sky News. The second pillar was brand and business, and the strong bond of trust Sky had with its 12 million customers and its reputation as a broadcaster. The third pillar was structure and regulation that includes compliance with Ofcom's Broadcasting Code (Code), the breach of which would result in brand and reputational damage and potentially fines and separately the risk of civil actions, for example defamation.
2. Sky stated that although Sky News accounted for a small part of the Sky business and was loss-making, Sky continues to invest in it because it contributes to Sky's brand value by broadcasting accurate and impartial news.
3. Sky said that Sky News was editorially independent and was committed to impartial and accurate reporting of news which was reinforced by the Sky News Editorial Guidelines and the Code. Sky said that Fox would not be able to influence the editorial position of Sky News post-transaction because of the three pillars described above.
4. Sky explained that while the Board has corporate oversight of Sky News, Sky News runs stories independently without interference from the Board or the wider management of Sky.

Jurisdiction and control of Sky

5. Sky stated that News Corporation had a closer relationship with Sky in its early days of being established because of the resource needed to establish Sky, and that this had changed as Sky grew as a company and established its own business objectives and corporate culture from within.
6. Sky stated that its Board operated similarly to Boards of other UK-listed companies, with a focus on engaging in strategy and encouraging

management in relation to the execution of strategy and taking an interest in the business without being overly involved.

7. Sky said that it would not describe itself as a family owned company as it operated as a listed, publicly owned company that has in place a longer-term view to create value for shareholders.
8. Sky explained that Fox did not have effective control of Sky currently. Sky's Board is comprised of a majority of independent directors. It is a very independently run company. Strategy and execution come from the management. All directors, including the Fox directors, play the role that you would expect on any Board. Outside of this, Fox did not influence the broad strategic direction of Sky.
9. Sky explained that every member of the Board at Sky brings a unique set of skills and experience, and this diversity contributes to the success of the business. For example, James Murdoch in his role as Chairman brings strategic insights and experience of the media sector to Sky, which is a valuable contribution.
10. Sky stated that its CEO had a strong relationship with James Murdoch in his role as Chairman and previously as CEO. The relationship was a mixture of both challenge and support. Sky explained that James Murdoch was not more involved with Sky than would be expected of a company Chairman, and that specific processes were in place to ensure that James Murdoch and the other Fox affiliated directors are not involved in commercial decisions at Sky concerning Fox (for example, contract renewals).
11. Sky said that its CEO would speak to James Murdoch every couple of weeks in his role as Chairman.
12. Sky stated that James Murdoch got involved during and in the run up to the preparation of the board meetings and strategy review days around the topics to be covered. Sky would provide updates to him, deal with any questions he might have or seek advice from him on particular issues.
13. Sky said that the Sky Board looked at the skill set and experience of James Murdoch when considering his reappointment as Chairman of Sky and the decision to nominate him for reappointment was unanimous. Sky also said that the role of Chairman was more prominent in terms of fronting the business, and required a greater time commitment than that of a non-executive director. Sky noted that there is a strong relationship between a Chairman and the CEO.

14. Sky stated that a Chairman was generally more influential than a director given the role. Sky's CEO had worked with James Murdoch for a long period which was advantageous to Sky in terms of combined knowledge and vast experience of the broader media sector. Issues were resolved quicker and efficiently because Fox was active in the same sector as Sky.
15. Sky stated that James Murdoch was interested in the broader sphere of the operations of Sky and not particular areas or operations.
16. Sky stated that it had not witnessed influence or attempt to influence Sky at an operational level from James Murdoch or Rupert Murdoch. James Murdoch and Rupert Murdoch were highly supportive and encouraging of Sky and believed in its continued potential.

Sky News

17. Sky stated that Sky News was a small part of Sky as a business but management reviewed the progress against its overall strategy and goals periodically. The CEO would review the overall direction and strategy of the group rather than individual operations such as Sky News.
18. The Sky Board meetings provide an opportunity to raise any questions about Sky's output including Sky News.
19. Sky explained that its senior management would discuss various corporate and financial issues with the Head of Sky News that included general operations, current and future Capex investments plans. For example, the decision to invest in high definition which was raised by the Head of Sky News and approved by the CEO.
20. Sky explained that the Head of Sky News reported directly to the Managing Director of Content of Sky but was largely autonomous. Sky said that its senior management did not typically discuss issues with the Head of Sky News unless there were particular issues which arose and may require further discussion, for example if there was a serious complaint or a particularly sensitive matter that needed to be addressed, such as the death of a Sky employee.
21. Sky said that the Director of Content had never overruled a decision made by the Head of Sky News and his primary role was engagement on the budget for Sky News.
22. Sky explained that the editorial decisions at Sky News (both for TV and online) were made by journalists at all levels because of the reality of a fast-paced rolling 24 hour news service.

23. Sky explained that Section 16 of its Editorial Guidelines did not require the Head of Sky News to share information with anybody else in Sky. This provision covered a narrow set of factors and was not based on the commercial aspects of news.
24. Sky explained that, for example, this provision was not relevant to the reporting of the transaction between Fox and Sky and the reporting was not influenced in any way.
25. Sky explained that the Head of Sky News had since 2006 met James Murdoch rarely – for example, once at an official Sky dinner and once at a Royal Television Society Convention at Cambridge.
26. Sky stated that it monitored the performance of Sky News by reviewing its coverage of stories as well as viewers' response and reaction to the stories. Sky would also consider the ways stories were covered by Sky News by looking at the viewer's point of view.
27. Sky stated that there were two important factors it considered for assessing the efficacy of Sky News - firstly, the safety of Sky News's staff and reporters and secondly, whether the standards of accurate and impartial news reporting were being met.
28. Sky stated that it looked objectively at data, results, performance and quality of work of the editors of Sky News. It also observed the culture of the organisation, the growth of individuals within Sky News and future plans to incorporate current and upcoming trends.
29. Sky explained that the Head of Sky News would assess Sky News based on the quality of journalism and how the news was covered. He might also look at the viewing numbers at the end of the week but was more focused on the quality of coverage.
30. Sky explained that Sky News provides a service to the public by disseminating accurate and impartial news and by doing so Sky News makes a contribution to the Sky brand.
31. Sky said that Sky News considered itself as a smaller player in terms of audience size but competed editorially with larger news providers such as the BBC and ITN channels in terms of the quality of its journalistic output. The timeliness of broadcasting a story was also a factor for consideration.
32. Sky stated that it introduced a debate programme, The Pledge, on Sky News which runs 1 hour per week as an alternative to Question Time on the BBC. Sky explained that debate programmes scheduled on Sky News would

inevitably include topics of industrial and political controversy or public policy and would therefore still need to comply with the Code.

33. Sky explained that there was a difference in entertainment chat shows and debate shows as the latter was based on current affairs and would have to comply with the Code. Sky stated that news based chat shows were not as popular in the United Kingdom as in other markets such as the US and Australia. Sky said its viewers expected Sky News to report on daily news matters in an accurate and impartial way rather than add further debate shows.
34. Sky explained that Sky News distributed wholesale news to players such as IRN for radio. Sky explained that it was entirely up to the radio operators as the purchasers of its wholesale news content via IRN whether to use the content and how to present it – for example, they can choose what stories to use, only use parts of a radio interview rather than the whole recording which Sky News would have provided and include news produced by their own newsrooms as part of their bulletins.
35. Sky stated that its culture was important for its business and acted as guidance for Sky to achieve success. It also wanted to focus on its own business and successes, whilst building a responsible business and encouraging its staff to be their best and crediting them for Sky's success.
36. Sky explained that the editorial guidelines of Sky News as well as the training it provided to its staff focused amongst other things on the importance of accurate and impartial news.

Views on the media landscape

37. Sky explained that news stories were covered differently by newspapers and television. For example, newspapers are based on the written word and are subject to different regulation and so can build stories based completely on 'off the record' information in news articles, whereas television news requires interviews with people and visual footage to tell the story.
38. Sky explained that for this reason there was no synergy between television news and newspapers because the way the two mediums were produced meant that newspapers and TV newsrooms approached stories from different perspectives.
39. Sky explained that online news involved print and visual journalism through videos. Sky stated that it did not consider that the differences between

television news and newspapers were breaking down with the rise of online news.

40. Sky said that Sky News had a unified approach to reporting and news content across TV and online and applied its editorial guidelines consistently across both platforms.
41. Sky explained that media plurality has increased significantly over the long term and more recently, with the entry of numerous online news players such as Vice and BuzzFeed.
42. Sky pointed out that the rise of online news sources had meant that there were alternatives to breaking news on TV, however the trust and impartiality of TV news could be important online.

Views on the influence of news on public opinion and the political agenda

43. Sky said that there was probably quite a strong relationship between press journalists and politicians but that this was not the case with broadcasting because of the regulation in place, such as the Code.
44. Sky explained that senior management at Sky News did not generally interact with politicians. In comparison, its political correspondents would regularly engage and meet with politicians as part of the requirements of their job.
45. Sky stated that it did not think there had been a change in the relationship between politicians and the press since the Leveson Inquiry.
46. Sky explained that newspapers rarely contact Sky News in order to offer a news story with a view to it being covered with their branding. Sky said that it would not generally consider running newspapers' stories on Sky News.
47. Sky News might pick up stories being run by other media organisations but this would depend on whether the story was correct and whether it could be moved on or supplemented and made part of Sky News' journalism. Sky would not just copy a story. Sky News did not consider that its development and supplementing of stories picked up from other news organisations expanded the original stories' reach in terms of audience because those stories would have changed and become Sky News journalism.
48. Sky explained that Sky News had a similar demographic audience to its other TV channels.

49. Sky explained that it did not see any flexibility to comply with the Code, which was very clear in terms of reporting news accurately and impartially. The Code also had impartiality rules governing any programmes that had content relating to matters of industrial and political controversy or public policy.
50. Sky explained that the Code has stricter rules for programmes in relation to coverage of topics relevant to the political agenda around election periods.

Views on media plurality

51. Sky said that it thought there had been an increase in news outlets in the market than there were previously, providing a range of different viewpoints and voices on news.
52. Sky said that it considered the BBC to be dominant across radio, television and online.
53. Sky stated that it did not consider the Transaction would give rise to cross-media dominance.

Genuine commitment to broadcasting standards

54. Sky explained that it understood a genuine commitment to the attainment of broadcasting standards to mean that Sky News would need to adhere to the Code, engender a spirit in the organisation that takes the Code seriously and to employ people and continually train them so they are aware of their responsibilities. Ensuring governance measures were in place and up to date was also relevant.
55. Sky explained that in its view, an organisation that was not genuinely committed to the attainment of broadcasting standards would break the law as well as holding a lower regard to compliance with the Code. It would not take the right measures to pursue and present a story to its audience and would lack the appropriate training, as well not providing refresher courses to its staff.
56. Sky explained that Sky News encouraged its employees to be honest and straightforward. It interacted openly with its employees and encouraged open debates around reporting of complex and sensitive stories.
57. Sky stated that its employees and journalists understood the standards of transparency, quality, integrity and impartiality that were expected of Sky News.

58. Sky explained that the Sky Board, and the Audit Committee, had oversight across the controls and operations of Sky that ensured it complied with the Code.
59. Sky stated that compliance with the Code was not a specific agenda at board meetings and it would only come up for discussion if there was a major matter for consideration regarding compliance with the Code. This was rare. The independent directors would raise questions about compliance across the business from time to time but not specifically about Sky News. The internal audit team had oversight of compliance processes.
60. Sky explained that it had a video training package in place for employees more widely, and that employees at Sky News were given more focused training about compliance with the Code, including day long refresher courses.
61. Sky explained that Fox, the Murdoch Family Trust and members of the Murdoch family do not have involvement with Sky's compliance with the Code over and above their role as directors of Fox who are on the Board of Sky.
62. Sky stated that it did not tolerate sexual harassment in its newsroom or in any of its channels and services.
63. Sky stated that it had made it clear to its staff following a previous incident at Sky Sports about the type of environment that was expected of Sky as a company.
64. Sky said that claims of sexual harassment had arisen across organisations and different industries, and that such things occur across all walks of life and that there had been developments for the positive in all areas of the business over the last decade or so. Sky stated that there is a good, strong inclusive culture within the Sky Newsroom and the wider organisation and that, while this does not mean that issues could not arise at Sky, the culture that exists would mitigate against it.

Sky post-transaction

65. Sky stated that the transaction was important for the ongoing success of Sky because it supported the delivery of the company's strategy and long-term growth. It represents a significant investment in Sky by Fox and offers significant value to its shareholders by way of a premium to the market value of Sky prior to the offer.
66. Sky explained that the Murdoch Family Trust was not acquiring control of Sky as Fox was the acquirer for the purpose of the transaction. Sky stated that

Fox Independent Directors would play the same role post-transaction as the Sky Independent Directors play today in relation to the independence of Sky.

67. Sky stated that Fox would bring extensive experience in entertainment content and sports broadcasting post-transaction that would add to the mix of experience and expertise of Sky. Sky would bring its experience as a direct to consumer media business.
68. Sky explained that Fox had committed to Sky News' continuing editorial independence and impartiality post-transaction in the 2.7 Announcement and the subsequent Fox Board resolution.
69. Sky also highlighted the three pillars that ensured the editorial independence and impartiality of Sky News post-transaction.
70. Sky explained that an independent committee of the Sky Board had been formed to be responsible for and have oversight of the transaction.
71. Sky said that it did not anticipate any changes to its current compliance culture post-transaction.