

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

Summary of response hearing with Sky Plc held on 14 February 2018

Introduction and opening remarks

1. Sky plc (Sky) outlined the key points of its response to the CMA's provisional findings on the Transaction. Sky stated that it disagreed with the CMA's provisional finding on the media plurality public interest consideration. In particular, it explained that the three underpinning pillars of (i) Sky News' people, culture and nature; (ii) its brand and business; and (iii) structural and regulatory constraints, individually and collectively, were more than sufficient to prevent any theoretical influence by the Murdoch Family Trust (MFT).
2. Sky gave its views on remedies without prejudice to its disagreement with the CMA's provisional finding on media plurality. Sky considered the risk of influence from the MFT as set out in the provisional findings to be highly theoretical and the concerns identified to be speculative and limited, and that this must be taken into account when considering remedies, including ensuring remedies are proportionate and not overly burdensome.

Fox's proposed remedy

3. Sky said that the remedy proposed by Fox in response to the CMA's Remedies Notice is effective, proportionate and congruent with the interests of Sky's shareholders. Sky stated that the remedy not only crystallises the existing safeguards of the independence of Sky News but takes them further, with oversight by a structurally separate Sky News editorial board. It would also involve the least disruption to Sky News' operations as a 24-hour rolling news channel.

Revised Editorial Guidelines

4. Sky explained that the nature of broadcast journalism – involving large teams of people in the creation of content and editorial decisions on a rolling basis - means that it would be difficult for a single view to be given significant

emphasis in the news, unlike print journalism where stories can be led by a single individual.

5. Sky emphasised that the proposed addition to the Sky News Editorial Guidelines requiring that all staff must report any attempt to influence by any member of the Fox group, was a very powerful addition to the Guidelines and would cover all guises of attempted influence.
6. Sky stated that as journalists naturally have a propensity to report on issues that they feel strongly about, Sky News staff would be highly unlikely to fail to report attempts to influence. Sky agreed that there could be anonymous reporting channels available to journalists if they wish.

Fox's (initial) commitment to maintain Sky News for at least five years

7. Sky said that five years was a significant time period of commitment given the nature of the industry.
8. Sky clarified that, under Fox's proposed commitment to maintain Sky News with equivalent levels of investment, funding for Sky News would not automatically end after five years. Sky stated that it expected funding for Sky News to be reviewed at the end of the five-year period and if Sky News was bringing brand value to the merged entity, for a decision to continue Sky News' funding to be made.
9. Sky said that [✂].

Sky News Editorial Board

10. Sky noted that the proposed independent Sky News Editorial Board (the Editorial Board) would not have oversight or decision making powers over editorial lines taken by Sky News, but would have oversight in ensuring that Sky News' editorial functions were completely independent.
11. Sky stated that members of the proposed Editorial Board should be 'au fait' with the UK environment in terms of the business and the context in which it operates, from spending time in the UK. Relevant industry and governance experience would also be important, which could include experience from other regulated industries such as financial services. Sky stated that it was also important that members have a keen interest in the future of news in terms of, for example, developments in how it is consumed by the public.
12. Sky stated that it is important that the number of Editorial Board meetings should not be burdensome and adversely affect the operation of Sky News as a whole. Sky agreed for example that the Editorial Board could meet four

times annually to actively review the last quarter, without interfering with the Head of Sky News' autonomy in running the division.

13. Sky said that the process of the appointment of the Head of Sky News should be led by the CEO of the company in an open way. Sky explained that the Editorial Board would have a role in reviewing and discussing a list of candidates, including any candidate(s) recommended by the CEO, and making a final approval.

Prohibition of the Transaction

14. Sky accepted that prohibition of the Transaction would be effective in maintaining the status quo as regards the ownership of Sky by not allowing Fox to take over the remaining shares of Sky, but that this remedy would be completely disproportionate as it would come with costs that are potentially very significant.
15. Sky explained that part of the strategic rationale for the Transaction was to ensure the future success of Sky as part of a larger media enterprise, and the benefits this would bring.
16. Sky stated that therefore if the Transaction were to be prohibited there would be opportunity costs for the business as a whole and for shareholders and it would have to look very closely at Sky News – and the future of it. Sky noted that [REDACTED].
17. Sky stated that [REDACTED].

Divestiture/Spinning-off Sky News

18. Sky said that [REDACTED].
19. Sky explained that a spin-off of Sky News would require an organisational separation plan, a funding plan for a sufficient period and a new governance structure for Sky News. In addition it would not be any more effective than the firewall remedy and would be less proportionate.
20. Sky said that it was not sure who the external investors that would hypothetically own the balance of shareholdings in Sky News as a spun off company would be, even if Sky guaranteed the required funding. Sky noted that it was unlikely to be large media enterprises given that they would not be acquiring complete control in this scenario.