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

Summary of second response hearing with 21st Century Fox, Inc held on 5 April 2018

Introduction and opening remarks

1. 21st Century Fox, Inc (Fox) outlined the key points of its response to the Competition and Markets Authority's (CMA) remedies working paper.

2. Fox stated that it was disappointed with the conclusions of the paper, which it considered did not take proper account of proportionality and was based on legal and analytical errors reliant on third party submissions which provided no concrete evidence on the influence of the Murdoch Family Trust and previous compliance with undertakings. Fox noted however that it was willing to engage further to try and deal with the CMA's concerns, even if Fox did not agree with them. As such, Fox had proposed two further remedies in response to the working paper – the divestiture of Sky News to Disney and the ring-fencing of Sky News as a separate entity within Fox.

Divestiture of Sky News

3. Fox set out that that Disney had agreed to purchase Sky News should it be required by the Secretary of State. Under this agreement, Disney would maintain the current cost base of Sky News for 10 years, adjusted for inflation (and could increase the spend if it saw fit). Fox would provide an annual financial payment commitment to Disney and Sky would maintain Sky News' position in the EPG and continue to allow Sky News to use Sky branding. Fox would have no ongoing involvement with Sky News once it was divested to Disney other than the annual payment to Disney and receiving audited financial statements.

4. Fox stated that Disney was interested in acquiring Sky News as a way to expand its news presence in the UK, building on the existing business relationship between Disney's news channel ABC with Sky News. Disney was a suitable purchaser. It was financially viable with an established global presence covering film and television production as well as news through ABC News. Fox noted in particular that Disney has no UK news presence

except for the existing relationship between ABC and Sky, so plurality concerns would not arise.

5. Fox further noted that Disney's commitment to acquire Sky News was not conditional on its acquisition of Fox – Disney would purchase Sky News if that was required for Fox's purchase of Sky to go through, regardless of whether it was subsequently successful in purchasing Fox. Fox said that it had not considered other purchasers for Sky News.

Divestiture process

6. Fox set out the proposed divestiture process, including various preparatory steps to ensure a swift transfer of the Sky News business and employees of Sky News to Disney once the commercial terms were finalised with Disney and the Secretary of State accepted the undertakings.

7. Once approved by the Secretary of State, a "NewCo" would be created consisting of the current Sky News assets under the control of an independent board. This board would operate Sky News independently of Fox and Sky until the acquisition by Disney was complete. This independence would be actively monitored by a monitoring trustee, which would also ensure that the acquisition proceeded as intended.

8. Fox noted that certain regulatory approval processes from authorities outside the UK might need to be completed but did not foresee any concerns given the extent of Disney's current news provision in those jurisdictions. Disney would also need to apply for certain licences such as a Digital Terrestrial Television license but again did not foresee any problems arising from this

Ring-fencing of Sky News

9. Fox explained that the ring-fencing proposal was similar to divestiture except that NewCo would remain under the common ownership of Fox, rather than be sold off. As such, Fox noted that this remedy could be completed more quickly than divestiture, since there were no regulatory steps needed such as merger control.

10. Under this proposal, NewCo would be a wholly owned subsidiary of Sky, with its own independent board authorised to make all strategic and operational decisions. The board would not report to any part of Sky or Fox, and operate solely under the authority of new Articles of Association. These would include a commitment to editorial independence and, under the Companies Act 2006, could not be amended by Fox. Any attempts to influence the editorial position of NewCo would be reported by the Board to Fox and to the Secretary of

State, and constitute a breach of the Companies Act and of the undertakings. Fox considered this would be an effective protection to deter an incentive to inappropriately influence Sky News. This would be further supplemented by personal undertakings given by Rupert, James and Lachlan Murdoch.

11. NewCo would operate under guaranteed funding for 15 years. Fox would have no control over NewCo and no involvement with the appointment (or removal) of the Head of Sky News. The Head of Sky News would act as CEO of NewCo, and be appointed solely by majority approval of the NewCo board. Fox noted that under the Sarbanes-Oxley Act, it was required to maintain oversight of financial controls. However, if required, Fox would be willing to transfer NewCo to an independent Trust which would become the legal owner of the NewCo business financed by Fox.