

SLAUGHTER AND MAY

One Bunhill Row
 London EC1Y 8YY
 T +44 (0)20 7600 1200
 F +44 (0)20 7090 5000

Confidential

20 January 2011

Rt Hon Jeremy Hunt MP
 Secretary of State
 Department for Culture, Media & Sport
 2-4 Cockspur Street
 London SW1 5DH

Your reference

Our reference

BJFL

Direct line

Dear Mr Hunt,

News Corporation/BSkyB

I write to you further to my letter of 12th January. As before, I write on behalf of BT, Guardian Media Group, Associated Newspapers Limited, Trinity Mirror Pic, Northcliffe Media and Telegraph Media Group (together the "Concerned Parties").

It is now being reported (notably in today's Financial Times) that News Corporation has offered to divest Sky News – by way of remedial undertakings in lieu of reference to the Competition Commission ("CC").

This suggests a recognition by you of the substantial plurality issues raised by the proposed merger.

In order to be an effective remedy to those issues however, a divestment of Sky News would require editorial, operational, financial and commercial independence:

- Freedom from direct editorial influence – this would require, at least, that News Corporation (i) has no role in appointing or dismissing editors, (ii) has no role in setting editors' remuneration or other terms of employment, (iii) be prohibited from offering financial inducements such as positions in other News Corporation outlets (iv) be prohibited from communicating its preferences to the editor.
- Operational independence – this would require that News Corporation could not impede the operation of Sky News in order to influence content. For example, it would not be acceptable for (i) Sky News to be reliant on a pool of journalists shared with News Corporation; or (ii) Sky News to be reliant on News Corporation's broadcasting infrastructure, where News Corporation could provide less favourable distribution in the event that it wished to influence Sky News.

CFi Saut
 SM Edge
 NPG Boardman
 GW James
 EA Codrington
 RMG Goulding
 GES Selligman
 PFJ Bennett
 RM Fox
 RJ Thornhill
 CJ Ains
 GP White
 NJ Archer
 AG Balfour
 CM Horton
 EA Barrett

PP Chappatte
 RJN Cripps
 P Jolliffe
 CD Randell
 WSM Robinson
 RV Carson
 SI Edwards
 JM Featherby
 F Murphy
 PM Olney
 PH Stacey
 CWY Underhill
 OA Wareham
 RJ Clark
 SJ Cooke
 DL Finkler

CW Harvey-Kelly
 JD Rice
 MA Whelton
 MD Bennet
 RD de Carle
 SP Hall
 WJ Sibree
 RC Stern
 JR Triggs
 ECL Wytde
 A Beare
 JD Boyce
 MEM Hattrell
 KI Hodgson
 N von Bismarck
 PW H Brien

JM Fenn
 AN Hyman
 AC Johnson
 EF Keeble
 KR Davis
 SR Galbraith
 NDF Gray
 MS Hutchinson
 SRB Powell
 AC Ryde
 JAD Marks
 SD Warnakula-suriya
 DA Wittmann
 TS Boxell
 SJ Luder
 AJ McClean

JC Twentyman
 GN Eaborn
 HK Griffiths
 STM Lee
 AC Cleaver
 EJD Holden
 KM Hughes
 G Iversen
 DR Johnson
 RE Levitt
 S Middlemiss
 RA Swallow
 DCR Waterfield
 DJ Bicknell
 CS Cameron
 CA Connolly

PJ Cronin
 BJ-PF Louveau
 MS Rowe
 MST Leung
 R Doughty
 E Michael
 RR Ogle
 SI Paterson
 PC Snell
 HL Davies
 JC Pulinis
 RA Sumroy
 GP Brown
 JC Cotton
 RJ Turnill
 WNC Watson

MJ Dwyer
 CNR Jeffs
 SR Nicholls
 MJ Tobin
 DG Watkins
 BKP Yu
 EC Brown
 RA Chaplin
 J Edwards
 AD Jolly
 S Maudgil
 JS Nevin
 JA Papanichola
 JM Zaman
 RA Byk
 GA Miles

GE O'Keefe
 T Pharoah
 MD Zerdin
 SFL Cardell
 RL Cousin
 BJ Kingsley
 IAM Taylor
 DA Ives
 MC Lane
 LMC Chung
 Rj Smith

Regulated by the Solicitors
 Regulation Authority
 Firm SRA number 55388

Document number
 EC 506591293

SLAUGHTER AND MAY

- Financial independence – this would require Sky News to have access to sufficient sources of income to continue to fund its own news-gathering and distribution. It would not be acceptable for Sky News to be reliant on News Corporation for a substantial portion of its income, such that News Corporation could threaten to reduce funding in the event that it wished to influence Sky News. On the other hand, it is difficult to see how Sky News would be viable as a stand alone operation. I note here that in its submission to Ofcom, B SkyB emphasised how reliant Sky News is on financial support from B SkyB:

"It is also relevant that Sky has invested for many years, and continues to invest, in the operation of Sky News as a distinct, impartial and independent news service, despite the unattractive returns available from such investments given the presence (among other services) of publicly funded rivals such as BBC News. Indeed, the Board of Sky (including the members of the Board connected to News Corporation) have for many years authorised growing investment in Sky News to that end as part of Sky's overall annual budgeting process."

- Commercial independence – this would require Sky News to have its own market presence e.g. with its own marketing capability. For example, it would not be acceptable for Sky News to rely on News Corporation to market its advertising slots, such that News Corporation could materially affect Sky News' commercial success. Any commercial deal with New Corp would have to be at arms length.

The Concerned parties find it difficult to see how that could be achieved without wholesale divestment of B SkyB.

Divestment of stand alone Sky News would also not address concerns around bundling and other forms of exclusionary behaviour.

More generally, the issues are complex and not "clear cut". As per my earlier letter, the only sensible procedure in such a case is to refer the matter to the CC where those issues can be fully debated.

Yours sincerely

/ Bertrand Louveaux

PP-

cc.