included in the latest projections and the pspm payments were adjusted, as commented above.

6. To provide some symmetry between Newco's costs and revenue payments under the carriage agreement, the same formula for price indexation has been applied to Sky-related costs in the Revised Carriage Agreement. This would ensure that such core costs would be covered by the revenue stream. This has been reflected in paragraph 5.3(iii) of the Revised UIL relating to the permitted cost increases for the agreements listed at paragraphs 5.1(iii), 5.1(iv) and 5.1(v) of the Revised UIL.

7. [✂]To provide a similar symmetry to the indexation for revenue, an index-related element of the calculation also uses the same formula for price indexation as for subscription payments.

8. Overall, by way of summary, the changes to the additional technical costs and reassessed tax costs referred to above have been fully compensated for in the Revised Carriage Agreement by an increase in the subscription payments. A similar basis for inflation has now been used for Sky-related costs, for [✂] and for subscription payments.

Sensitivity of the latest projections

9. A comparison has been made for profit and cash flow under different inflation assumptions, comparing the projection used for the February Report with the proposal under the Revised Carriage Agreement. Under the base case assumptions, with annual CPI at three per cent, six per cent, eight per cent and 10 per cent, both profit and cash flow are higher under the Revised Carriage Agreement than under the proposals modelled for the February Report. The improvement in these scenarios relative to the projection used for the February Report is more marked for the higher inflation situations than for the lower inflation situations.

10. To check Newco's sensitivity to risk of unfavourable events, [✂].

11. This scenario was also explored under higher inflation assumptions, while making an adjustment for advertising revenues. [✂].

12. The latest proposals in the Revised Carriage Agreement appear to be more resilient to the effects of inflation, up to CPI inflation of 10 per cent, than the original proposals.

Assessment

13. As the OFT previously assessed, while it is possible to imagine a combination of unfavourable events that could cause the financial viability of Newco to be threatened, this is not considered to be very likely. The assumptions made in the projections for Newco continue to appear to be reasonable and there is some flexibility to handle unforeseen problems. The benefit of the assured income from the Revised Carriage Agreement strengthens the financial position of Newco and while this agreement operates, and based on the evidence seen, the OFT continues to have no reason to expect that Newco would not be financially viable.

Annex 3 – The Revised UIL submitted by News on 14 June 2011

Annex 4 –
The Revised Carriage Agreement submitted by News on 15 June 2011

Annex 5 –
The Revised Brand Licensing Agreement submitted by News on 16 June 2011

Annex 6 –
Articles of Association of Newco submitted by News on 10 May 2011