

News Corporation

NEWS CORPORATION / BRITISH SKY BROADCASTING GROUP PLC

RESPONSE TO REQUEST FOR INFORMATION OF 9 NOVEMBER 2010

This document and supporting appendices are in response to Ofcom's information request of 9 November 2010 in relation to the possible acquisition by News Corporation of the shares in BSkyB that it does not already own (the "Transaction").

This response also refers to, and should be read in conjunction with, News Corporation's submission of 23 November 2010, in response to Ofcom's Invitation to Comment of 5 November 2010 (the "Main Submission").

This response and its appendices contain confidential information which should not be disclosed to third parties without News Corporation's prior written consent.

For ease of reference, appendices are numbered by the question to which they respond.

For the purposes of this document:

- "News Corporation" means all entities in the News Corporation group, excluding (for the avoidance of doubt) British Sky Broadcasting plc and the companies British Sky Broadcasting plc owns or controls.
- "BSkyB" means British Sky Broadcasting plc and the companies British Sky Broadcasting plc owns or controls.
- "proposed concentration" means the proposed acquisition by News Corporation of those shares in British Sky Broadcasting plc it does not already own.

A. RATIONALE FOR THE MERGER

1. Please provide copies of analyses, reports, studies, surveys and any comparable documents prepared by or for any member(s) of the board of directors, or the supervisory board, or the other person(s) exercising similar functions (or to whom such functions have been delegated or entrusted), or the shareholders' meeting, for the purpose of assessing or analysing the proposed concentration with respect to market shares, competitive conditions, competitors (actual and potential), the rationale of the concentration, potential for sales growth or expansion into other product or geographic markets, and/or general market conditions. Please indicate (if not contained in the document itself) the date of preparation, the name and title of each individual who prepared each such document. (Form CO section 5.4).

See Annex 5.4(a) of the Form CO, provided to Ofcom on 22 November 2010 - a further copy is contained at Appendix 1 hereto.

2. Please provide copies of any documents not provided in response to A.1, which have been presented to any News Corporation committee or decision making body,

discussing, in relation to the UK operations of News Corporation/BSkyB, potential future strategies including but not limited to plans or proposals for potential synergies, new products, bundling existing or new products, pricing strategies in particular discounts, cross subsidies, organisational restructuring, changes to management, changes to editorial arrangements (through for example any potential merging of news desks or joint commissioning and news planning), changes to promotion of products including cross promotion and market positioning following the proposed concentration.

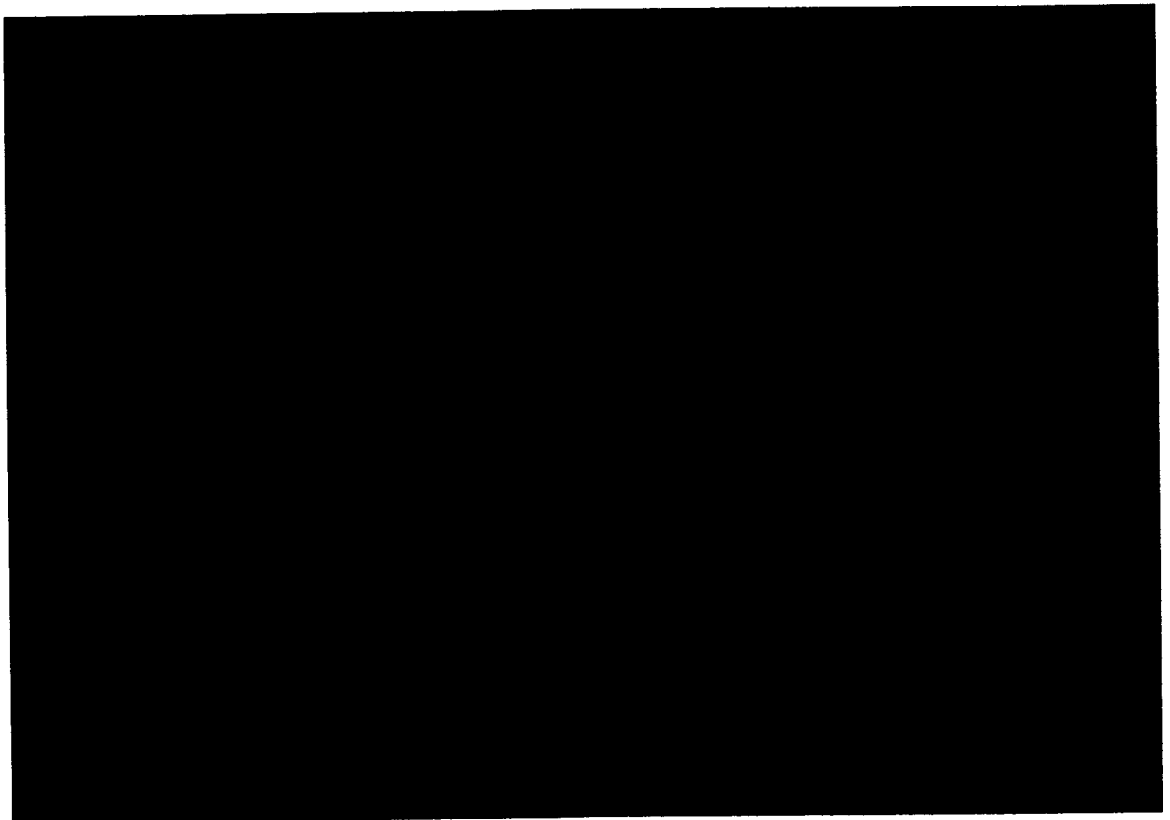
The acquisition of the entire share capital of BSkyB constitutes an opportunity for News Corporation to achieve financial consolidation for a company with which it has been closely associated for a long time, and which is mainly active in a sector that constitutes a core business for News Corporation (see paragraphs 2.13 and 2.14 of the Main Submission).¹

Copies of responsive documents were provided at Annexes 5.4(b)(i)-(v) of the Form CO, as provided to Ofcom on 22 November 2010. Further copies are contained at Appendix 2 hereto.

B. AUDIENCES

Current situation

3. Please outline the strategy and business objectives of the UK media operations of News Corporation, were the proposed concentration not to take place.



¹ News Corporation has activities in the pay TV sector outside the UK and Ireland.

4. Please provide the following data, in relation to:

- each of News International's UK newspaper titles (using ABC and NRS data where relevant); and
 - each of News International's websites targeted at UK consumers (using UKOM data)
 - Fox News broadcast in the UK.
- 4.1. Demographic, age and geographic breakdown of readership (for press)/ monthly users (for websites) for each of the products set out above. (Five year time series, quarterly.)
- 4.2. For News International print titles that are now behind a "pay wall" online (Times Online, and News of the World), please provide subscriber numbers, demography, age and geography. (Five year time series, monthly data.)

Please provide it in a machine readable format (Excel, SPSS). Please include any written reports and charts associated with this data.

The relevant data are contained at Appendix 4.

Please note that:

- (a) As regards data relating to Fox News broadcast in the UK, we are informed by BARB that Ofcom already has all relevant BARB data (including all ratings and reach for Fox News), and it is therefore not included with this response.
- (b) "Pay wall" data are only available for the limited period during which "pay walls" have been in place - i.e. from June 2010 for Times Online, and November 2010 for News of the World.
- (c) Because of the limitations of UKOM data (including recently publicised data processing issues), and the fact that News Corporation does not subscribe to UKOM, comScore data have been provided in relation to News International websites targeted at UK consumers.

5. Please provide any audience segmentation models (current or from the last five years) that describe how people consume combinations of the following products: News International newspaper titles in the UK; News International websites targeted at UK consumers; BSkyB UK television channels (whether wholly or partly owned by BSkyB); BSkyB websites targeted at UK consumers; commercial national/local UK radio news bulletins supplied by Sky News; competing press titles; competing websites; and competing television channels. To include how segmentations were built and full details of methodologies.

Available segmentation models are contained at Appendix 5.

News Corporation does not have access to any segmentation models in relation to BSkyB UK television channels, BSkyB websites targeted at UK consumers, or commercial national/ local UK radio news bulletins supplied by Sky News.

C. OWNERSHIP AND CONTROL – EXTERNAL

Current situation

6. **Please provide details of the overall group structure of News Corporation, including a flow chart for illustrative purposes. Details of the following in particular should be included:**

A flow chart of the overall group structure of News Corporation is contained at Appendix 6.1.

6.1. The ultimate parent of News Corporation

News Corporation.

6.2. Any holding company of News Corporation

Not applicable.

6.3. Any subsidiary of News Corporation

See Annex 4.1.2(a) of the Form CO, as provided to Ofcom on 22 November 2010 - a further copy is contained at Appendix 6.3 hereto.

6.4. Any media enterprise in which News Corporation, any holding company of News Corporation, and/or the ultimate parent company of News Corporation has a shareholding of 15% or more and please identify the level of shareholding concerned

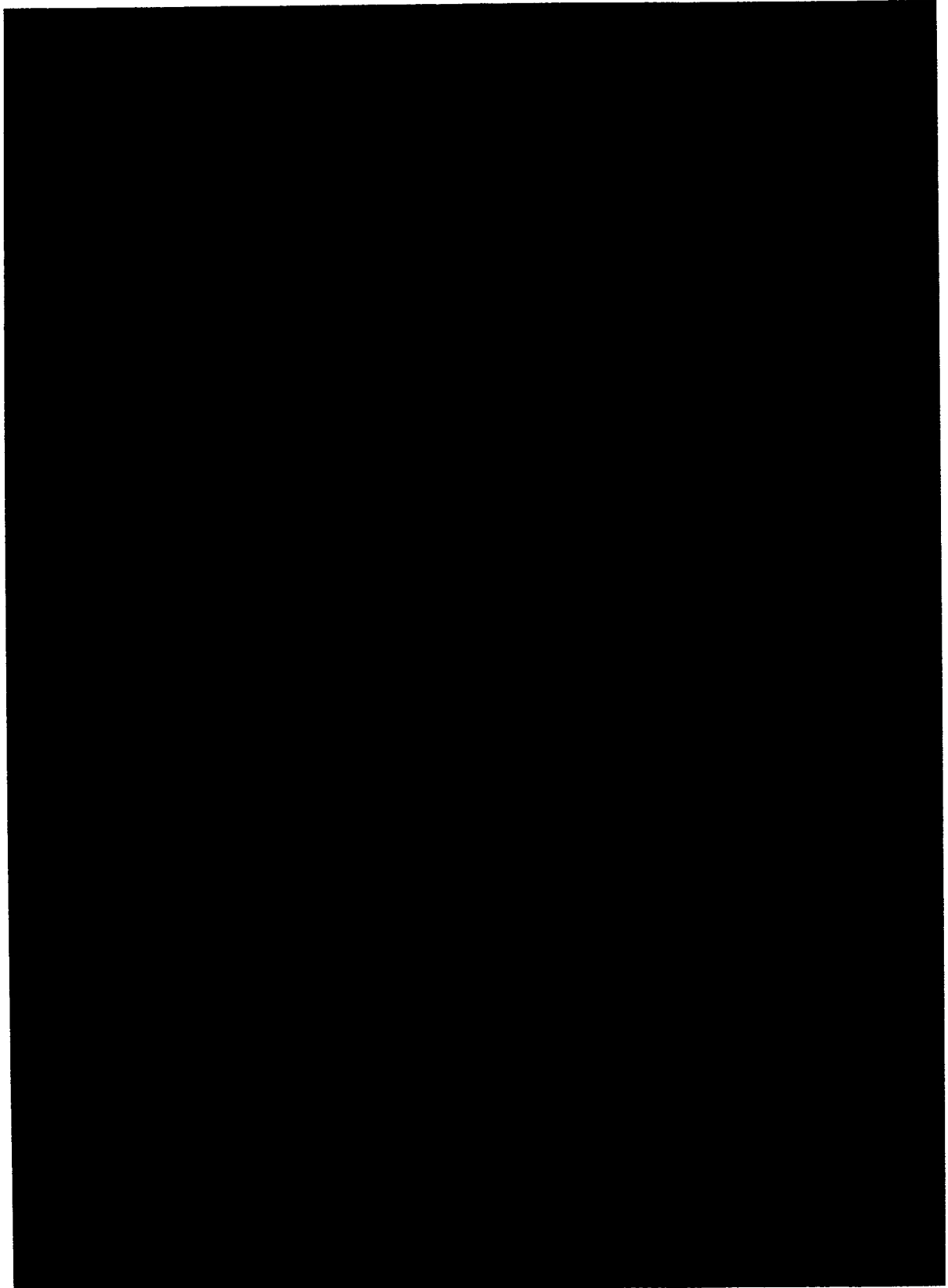
A list of media enterprises which have activities in the UK is contained at Appendix 6.4.

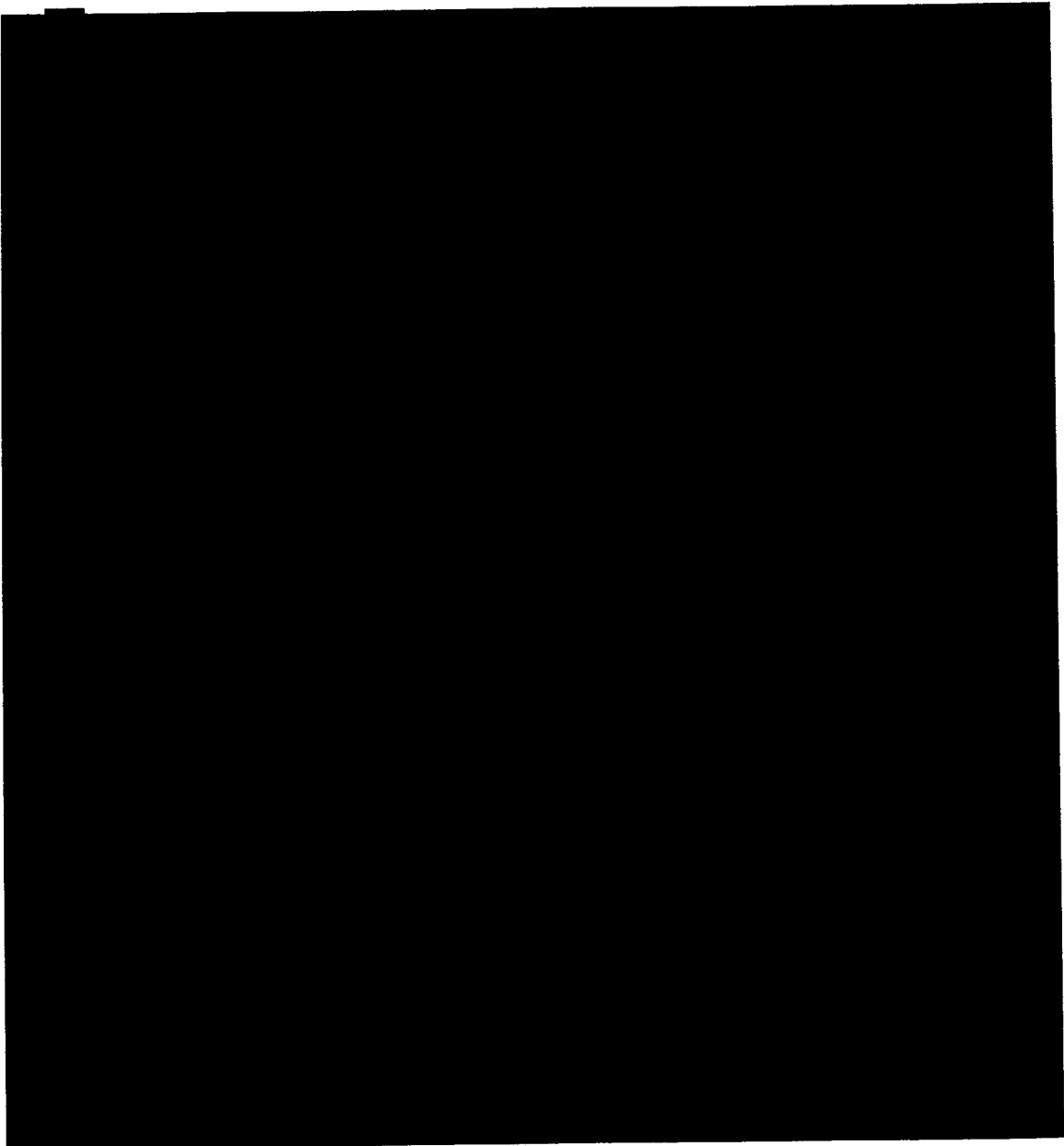
6.5. Shareholders with a 15% or more shareholding in News Corporation, in any holding company of News Corporation and in the ultimate parent company of News Corporation and please identify the level of shareholding concerned

News Corporation's Class B Common Stock, which is the only one with voting rights attached, is distributed as follows:

- (a) 38.4% of the shares are held by the Murdoch Family Trust;
- (b) 7% are held by HRH Prince Alwaleed of Saudi Arabia; and
- (c) the remaining 54.6% is distributed among a large number of shareholders with shareholdings of less than 5% each.

7. **Please list all third parties with which you have arrangements under which content prepared by News Corporation is made available to UK consumers over a third party platform. Please state, in each case, what content is made available. Please state, in each case, which of News Corporation and the third party has the consumer relationship, if any.**





8. Please describe how News Corporation and BSkyB currently interact. Please give details of formal and informal contacts between them relating to:

- **Governance and operational business decisions; and**
- **Decisions relating to UK media operations, including content creation / news reporting and distribution**

Please include details of:

- **frequency of contacts;**
- **the names and job titles of those involved;**
- **the degree to which any contact may take place between BSkyB and those working on News Corporation's UK newspaper titles;**

- **the degree to which News Corporation uses any BSKyB content or vice versa; and**
- **the degree to which there is discussion of individual news stories between BSKyB and News Corporation.**

As agreed with Ofcom on 12 November 2010, the scope of this response is limited to:

- (a) interactions between the Boards and senior management of News Corporation and BSKyB;
- (b) decisions relating to content; and
- (c) contractual commitments. (Please see Appendix 8.1 for details of the contractual commitments between News Corporation and BSKyB prior to announcement of the Transaction.)

GOVERNANCE AND OPERATIONAL BUSINESS DECISIONS

Please see paragraphs 4.8 to 4.11 of the Main Submission for details of key contacts relating to governance and operational business decisions. However, the following further details are added here for the sake of completeness:

(a) News Corporation's representation on the Board of BSKyB

There are 14 members of BSKyB's Board of Directors comprising 12 non-executive directors and two executive directors. Appendix 8.2 sets out a list of matters reserved to the Board of BSKyB under the terms of its corporate governance arrangements.

The four non-executive directors which currently hold executive positions at News Corporation are as follows:

- (i) **Mr. James Murdoch** (non-executive director and Chairman of BSKyB) was the CEO of BSKyB with effect from 4 November 2003. On 7 December 2007, he was appointed non-executive Chairman of BSKyB, having relinquished the role of CEO. Mr. Murdoch is Chairman and Chief Executive, Europe and Asia, at News Corporation and is a member of News Corporation's Board of Directors. Between May 2000 and November 2003, he was Chairman and CEO of the Star group (a News Corporation wholly owned subsidiary).
- (ii) **Mr. David F. DeVoe** (non-executive director of BSKyB) is an executive director at News Corporation and holds the position of both the Chief Financial Officer and Senior Executive Vice President of News Corporation. Mr DeVoe has been a Director of News Corporation and its CFO since October 1990. Mr. DeVoe has served as Senior Executive Vice President of News Corporation since January 1996. Mr. DeVoe has been a director of NDS Group plc since October 1996.
- (iii) **Mr. Thomas Mockridge** (non-executive director of BSKyB) is the Chief Executive Officer of Sky Italia and the Chief Executive, European Television of News Corporation where he oversees News Corporation's television operations in Europe (outside the UK). Prior to joining Sky Italia,

Mr. Mockridge held various roles at Star Group Limited and was previously CEO of Foxtel, News Corporation's pay TV joint venture with Telstra.

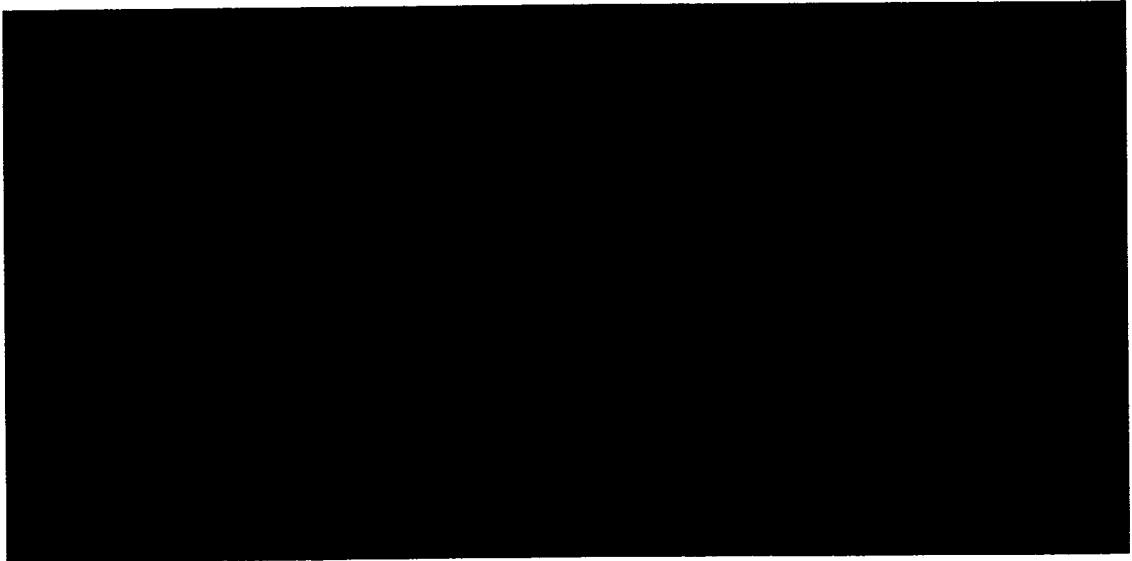
- (iv) **Mr. Arthur Siskind** (non-executive director of Sky) is an executive director of News Corporation and the Senior Advisor to the Chairman of News Corporation. He was appointed as a director of Sky on 19 November 1991. Mr. Siskind has been the Senior Advisor to the Chairman of News Corporation since January 2005. Mr. Siskind has been an Executive Director of News Corporation since 1991 and was Group General Counsel of News Corporation from March 1991 until December 2004.

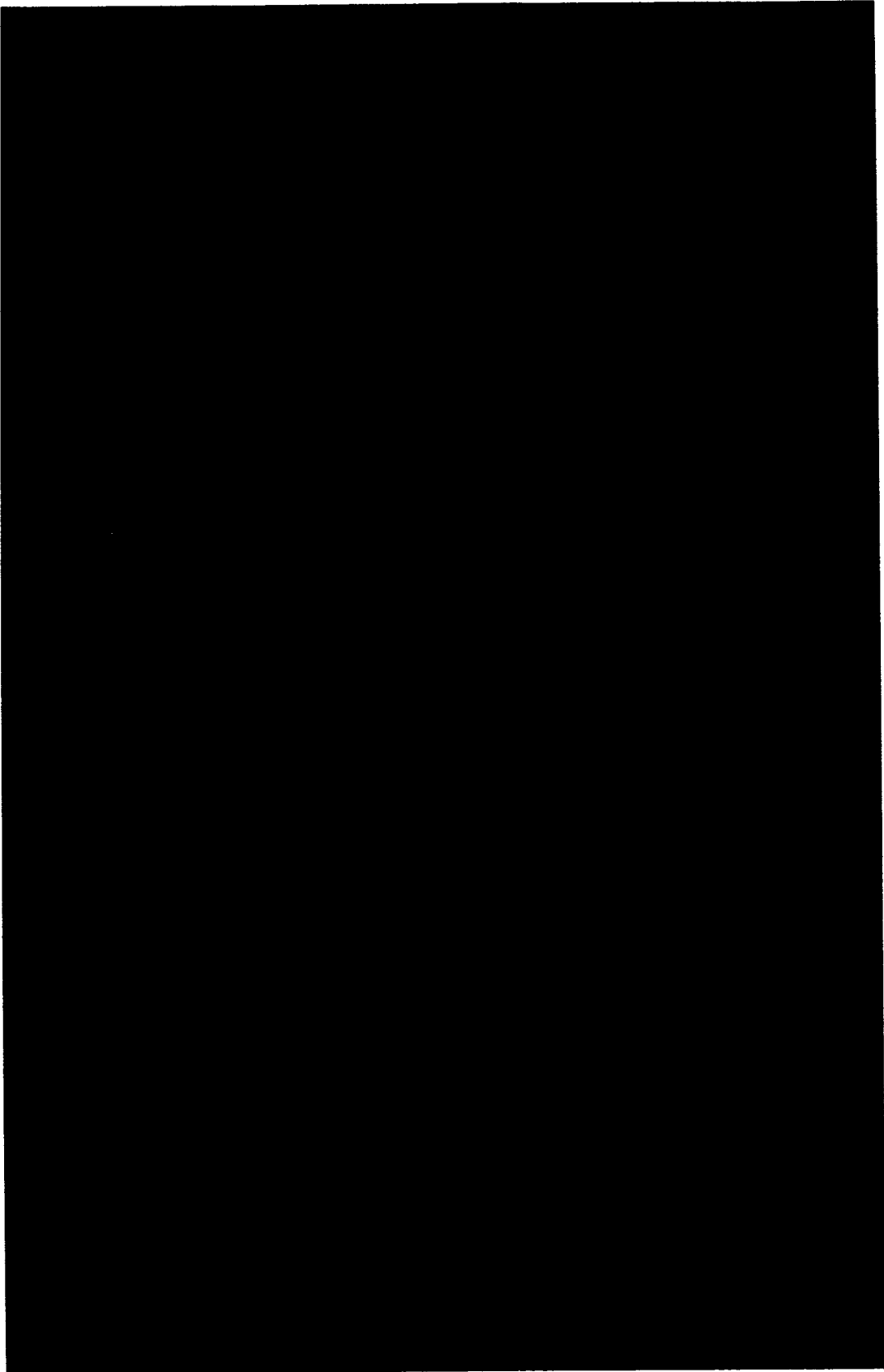
BSkyB's 2010 Annual Report states that the BSKyB Board met five times during the 2010 financial year to review strategic operational and financial matters. Of these five meetings the non executive directors listed above attended all meetings. The Board may (subject to the Articles, the Companies Act 2006, and any special resolution passed by the shareholders - which, we note, could be blocked by News Corporation) exercise all of the powers of BSKyB.

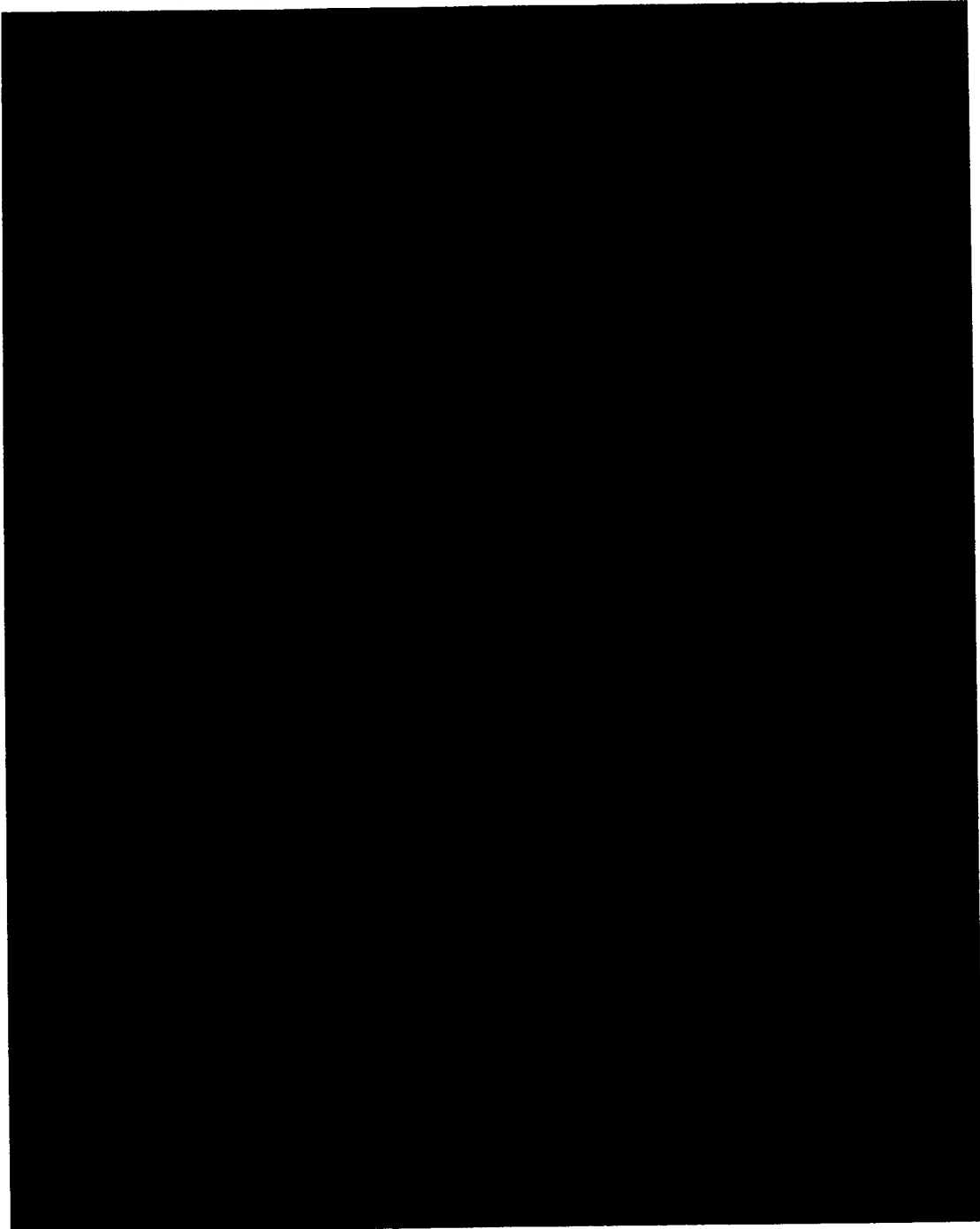
In addition to participating in decisions at Board meetings, News Corporation's representative directors participate in Board decisions taken by way of written resolution.

(b) **Financial reporting**

News Corporation, as a US reporting company, is required to include in their SEC reports and proxy statements disclosures relating not only to itself but also to certain "significant" investments in third parties. Due to the size of News Corporation's holding in BSKyB, News Corporation is regarded under US securities law as having made a "significant" investment in BSKyB and therefore BSKyB is required to provide to News Corporation certain non public reports and financial information.







9. **Please describe how far News Corporation's current shareholding in BSkyB allows it to direct and set BSkyB's strategies, policies and content decisions.**

The current shareholding of News Corporation does not provide it with the direct ability to "direct and set BSkyB's strategies, policies and content decisions". However, the current shareholding provides News Corporation with a degree of control over the strategy and policy of BSkyB, as described in paragraphs 4.7 et seq of the Main Submission. However, the following further details are added here for the sake of completeness.

(a) **Pattern of voting and News Corporation's Influence**

Although News Corporation has a shareholding of 39.14%, it has voting rights of 37.19%.⁴ However, News Corporation's effective voting power is higher than its actual shareholding due to the fact that a certain percentage of shareholders do not vote their shares at the AGMs. In the past five AGMs, News Corporation's effective voting power represented between 45% and 49% of the vote at such AGMs.

The following table reports News Corporation's percentage of the average number of votes cast at the last five BSKyB general shareholder meetings.

BSkyB General Meetings

General Meeting Date	News Corporation Shares (with voting restriction)	Average Votes Cast	% of Votes (with voting restriction)
October 22, 2010 ⁵	651,882,163	1,328,049,351	49.09%
October 23, 2009	651,882,163	1,414,688,335	46.08%
September 26, 2008	651,882,163	1,399,045,274	46.59%
November 2, 2007	651,882,163	1,438,642,097	45.31%
November 3, 2006	651,882,163	1,343,894,084	48.51%

Source: News Corporation/ BSKyB

Between 2006 and 2010, News Corporation voted in favour of all resolutions proposed at BSKyB AGMs and all such resolutions were passed with a significant majority.

Since listing, a shareholder resolution has not been passed that was not supported by News Corporation.

(b) **Subject of resolutions at AGMs**

The resolutions proposed at AGMs generally relate to key corporate decisions, and decisions which, pursuant to the articles of association of BSKyB (the "Articles") and English company law, must be passed by shareholders in a general meeting. The following is a general analysis of the matters considered at the last five AGMs of BSKyB, each of which are significant matters for BSKyB:

- (i) at each AGM, the shareholders were required to approve the following matters:
 - (1) to receive the financial statements, and the director's and auditors' report thereon, for the most recent financial year;
 - (2) to appoint (or re-appoint) the directors of BSKyB (pursuant to the Articles of BSKyB, directors are required to be re-appointed on a

⁴ In the context of BSKyB's share buy-back programme, which was presented by the Board for approval by independent shareholders at the 2005 AGM, in order to avoid the requirement for News Corporation to make a mandatory bid for those shares it did not own in BSKyB following an increase in News Corporation's shareholding from 37.19% to 39.14% as a result of the buy-back, News Corporation and the BSKyB entered into a voting agreement in order to limit News Corporation's voting rights to the pre-buyback level of 37.19%.

⁵ This was BSKyB's most recent general meeting.

rolling basis – for example, at the 2010 AGM, eight of the 14 directors of BSKyB stood for re-election);

- (3) to declare a final year-end dividend;
 - (4) to re-appoint the auditors of BSKyB (who, in accordance with the Companies Act 2006, must be re-appointed each year by the shareholders);
 - (5) to authorise the directors of BSKyB to issue new shares pursuant to the Companies Act (which is a general authority) and to waive the statutory rights of pre-emption which shareholders have;
 - (6) to approve the report on directors' remuneration for the previous financial year; and
 - (7) to approve BSKyB and its subsidiaries making political donations and incurring political expenditure;
- (ii) over the last five AGMs, the shareholders have also approved the following matters:
- (1) to replace or amend BSKyB's Articles (at three of the last five AGMs);
 - (2) to increase the maximum aggregate fees permitted to be paid to non-executive directors for their services in the office of director (once in the last five AGMs);
 - (3) to approve BSKyB's 2008 Long-Term Incentive Plan (once in the last five AGMs); and
 - (4) to allow BSKyB to hold general meetings on 14 days notice (at two of the last five AGMs).

10. Please describe any policies, processes or governance structures intended to ensure editorial freedom within News Corporation operations in the UK. Please indicate where any policies, process or governance were imposed or undertaken as a result of previous transactions.

As regards content, generally all News International journalists agree to abide by the Editorial Code of Practice promulgated by the Press Complaints Commission. An obligation to comply with the Code is included in their contracts of employment. News International employees are also issued with News Corporation's Standards of Business Conduct, which covers business ethics and includes subjects such as conflicts of interest and insider trading. This document also forms part of the employment contracts of all News International employees.

As regards individual newspaper titles:

- (a) *The Times and the Sunday Times* Times Newspapers Holdings Limited ("TNH IL") was purchased by News International Limited from Thomson British Holdings Limited in 1981. Times Newspapers Limited ("TNL") (the publisher of *The Times* and the *Sunday Times*) was the principal operating subsidiary of TNH IL when owned by Thomson British Holdings Limited. Before TNL was purchased by

News International Limited, Mr. Rupert Murdoch gave certain undertakings to ensure the editorial independence of *The Times* and the *Sunday Times*.

The Articles of Association of TNHL (a copy of which is contained at Appendix 10.1) provide for six "independent national directors". At least two must be "distinguished journalists or persons who have particular knowledge or experience of journalism". The appointment or dismissal of all independent national directors (who are nominated by News International) has to be approved by a majority of the independent national directors.

In addition, the Articles of Association of TNL were amended at the time of the purchase as follows:

- (i) The editor of the *Sunday Times* and the editor of *The Times* can only be appointed or dismissed with the approval of the majority of the independent national directors of TNHL.
- (ii) The editor of each newspaper must retain control over any political comments published in their respective newspapers, and will not be subject to any constraints in expressing opinions or reporting news that may directly or indirectly conflict with the opinions or interest of any of the newspaper proprietors of *The Times* or the *Sunday Times*.
- (iii) Instructions to journalists may only be given by the editor, or someone to whom the editor has delegated authority.
- (iv) The editor of each newspaper retains control over the appointment and dismissal of journalists working on their newspaper, and over all content of their newspaper, with the exception of advertising, where the editor's rights may be limited to the right to refuse to publish any advertisement, or where in the newspaper the advertisement is to appear.
- (v) Any dispute between the editors or between either of them and the directors of TNL must be referred to the independent national directors of TNHL. The decision of the independent national directors is final and binding.

The amendments to the Articles of Association of both TNHL and TNL noted above may not be removed or altered in any way, unless consent has been received from the Secretary of State.

- (b) *The Sun and the News of the World* - The position with *The Sun* and the *News of the World* is somewhat different as there is no formal structure in place in relation to editorial independence, as there is with *The Times* and the *Sunday Times*.

However, as a general principle, editors do not take instructions from management, board members or shareholders on editorial matters; their remit is to produce a newspaper which reflects the views and opinions of its readers, to increase the sales of the newspaper, to confirm or challenge accepted wisdoms through columnists and writers and generally to provide as much news, information and entertainment as is possible within agreed budgets.

In order to form a judgment on presentation of news content, choice of stories to cover (or not cover) or editorial stance, the editor of each title may have discussions on a range of topics with a number of sources: colleagues, politicians,

friends, family, managers, business acquaintances. The editor will also pay close attention to the views of readers as expressed in letters to the editor, meetings with readers and, increasingly, in views posted on the newspaper's website.

Whilst each editor's decision on presentation of news content, choice of stories to cover (or not cover) or editorial stance is generally independently taken, without active intervention from any party, the editor (particularly the editor of *The Sun*) also has regular discussions with Mr. Rupert Murdoch (the Chairman and Chief Executive Officer of News Corporation), Mr. James Murdoch (Chairman and Chief Executive Officer, Europe & Asia, of News Corporation, and Chairman of News International), Ms. Rebekah Brooks (Chief Executive Office, News International). These discussions can relate to a range of editorial matters, from page design to editorial policy. Mr. Rupert Murdoch, Mr. James Murdoch and Ms. Brooks have, between them, many years of experience in the newspaper industry.

For completeness it is also noted that, at the time of the merger of Dow Jones and News Corporation in July 2007, an agreement was entered into whereby a "Special Committee" was established in order to preserve the editorial integrity of *The Wall Street Journal* and Dow Jones Newswires. The Special Committee has rights of approval over various matters, including the appointment and removal of editors and changes to the authority, reporting relationship and consultation rights of editors. A copy of that agreement is contained at [Appendix 10.2](#).

11. **Please describe how the final decisions on senior editorial appointments within UK focused News Corporation media businesses are made. Please include the names and job titles of the individuals involved in this process.**

The process which applies to appointment of the Editors of *The Times* and of the *Sunday Times* is set out in response to Question 10 above.

In relation to the editors of *The Sun* and the *News of the World*, these are simply appointed by News International management. The Chief Executive of News International reports to Mr. James Murdoch. Mr. Rupert Murdoch is the ultimate authority in any such appointment.

As regards Wall Street Journal Europe, the Special Committee established to preserve the editorial integrity of Wall Street Journal and Dow Jones Newswires has rights of appointment and dismissal in respect of editors.

Impact of the merger

12. **Please describe how the arrangements you described in response to question 8 would be affected by the proposed concentration.**

See Section 4 of the Main Submission.

13. **Please describe how the policies, processes or governance structures described in response to question 10 may change if the proposed concentration takes place.**

See Section 4 of the Main Submission.

14. **Please state whether, and how the process described in question 11 may change if the proposed concentration takes place.**

See Section 4 of the Main Submission.

D. LONGER TERM

15. **What are the potential benefits to UK customers from the proposed concentration?**

See response to Question 3 above.

LIST OF APPENDICES

For ease of reference, appendices are numbered by the question to which they respond.

- | | |
|----------------------|---|
| Appendix 1 | Copies of analyses, reports, studies, surveys and comparable documents |
| Appendix 2 | Copies of documents presented to any News Corporation committee or decision making body |
| Appendix 4 | Data in relation to News International's UK newspaper titles and News International's websites |
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| Appendix 6.1 | A flow chart showing the overall group structure of News Corporation |
| Appendix 6.3 | Subsidiaries of News Corporation |
| Appendix 6.4 | "Media enterprises" with activities in the UK in which News Corporation has a shareholding of 15% or more |
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| Appendix 8.1 | Details of contractual arrangements between News Corporation and BSkyB |
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| Appendix 10.2 | Agreement establishing a "Special Committee" to preserve the editorial independence of the Wall Street Journal |

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Appendices to News Corporation response to request for information of 9 November 2010

For information, the Appendices comprised the following documents:

- Appendix 1** News Corporation Board Presentation 9 June 2010
- Appendix 2** "Potential Acquisition of BSkyB – Board Briefing Material", 9 June 2010
"Potential Acquisition of BSkyB – Moody's Investors Service Discussion Material", 14 June 2010
"Rubicon – Potential Synergies", February 2010
"Project Rubicon - Scenario modelling for Brazos", 5 February 2010
"Potential Acquisition Of BSkyB – Standard & Poor's Discussion Material", 14 June 2010
News Corporation's Internal Documents – "Rubicon", 21 January 2010
- Appendix 4** Pay wall subscriber data
The Times Online and the Sunday Times Online demography
ComScore data – table of News International titles
Table of circulation data
Readership data
- Appendix 5** Freshminds Presentation – "At home with your readers: Understanding the News of the World Segmentation", January 2009
Presentation – "Informing a strategy to stem future decline of The Sun Newspaper – Qualitative and Quantitative Research Findings", 13 May 2008
Times Media presentation – "Times People Customer Segmentation – Topline summary", May 2008
- Appendix 6** News Corporation Global Operations Chart
News Corporation list of subsidiaries
Table of Media Enterprises with activities in the UK in which News Corporation has a shareholding of 15 per cent or more
- Appendix 7** Table of 20th Century Fox International's TV Agreements In The UK
Table of News Corporation's Key Channel Licensing Agreements in the UK
- Appendix 8** Details of contractual commitments between News Corporation and BSkyB

Matters reserved for the Board of BSKyB

Appendix 10 Articles of Association of Times Newspapers Holdings Limited (adopted by special resolution on 13 February 1981)

Agreement between News Corporation, Dow Jones & Company, Inc. and the Special Committee