

Strictly Confidential - Contains Business Secrets



Meeting with OFT – 31 January 2011

Undertakings in lieu - Presentation

Agenda

- Background:
 - Public Interest Consideration
 - Undertakings in lieu (UIL)
- Sky News Business Plan
- UIL main steps
- Conclusions
- Process and next steps

Public Interest Consideration

- News currently owns 39.14% of Sky shares and wishes to buy the remainder of the shares (the **Transaction**).
- The European Commission (in an unconditional Phase I decision) has confirmed that the Transaction will not lead to a significant impediment of effective competition in any relevant market.
- The relevant PIC for the Secretary of State is whether, in relation to every relevant audience in the UK there would remain, post-Transaction, a **sufficient plurality of persons with control of media enterprises serving that audience**.
- On 31 December 2010 Ofcom advised the Secretary of State that the Transaction “may” have effects on media plurality which may be against the public interest and advised the Secretary of State to refer the Transaction to the Competition Commission (CC).

Ofcom's focus is on the loss of Sky News' current degree of editorial independence

- Basis for the perceived concerns relied upon by Ofcom in recommending reference to the CC is the loss of Sky News as an independent broadcast news voice.
- Ofcom accepted that internal plurality is relevant to overall plurality assessment but, contrary to News' submissions, did not reach a firm conclusion that internal plurality would be sufficient where Sky News was fully owned by News.
- None of the potential concerns relied upon by Ofcom could arise if Sky News was maintained as a **distinct media enterprise** as per the situation pre-Transaction.

Structural UIL maintains status quo for Sky News

- News believes that concerns about plurality are ill-founded.
 - Transaction poses no threat to the sufficiency of plurality in the UK
 - Ofcom's report suffers from a number of key flaws.
- News created Sky, including Sky News, and has always valued the Sky News service.
- However News is prepared, in order to avoid a lengthy review by the CC, to offer a **clear-cut structural remedy** - the spin-off of Sky News as a publicly traded entity - which will **maintain the existing degree of independence of Sky News** and maintain Sky News as a distinct enterprise.
- The Secretary of State has an implied duty to consider whether to accept UIL; a referral of a case where a satisfactory UIL is offered would be a significant waste of resources.
- The UIL:
 - preserves the pre-Transaction status-quo;
 - negates any possible need for further regulatory review by the CC;
 - will clearly "remedy, mitigate or prevent" any of the potential concerns relied upon by Ofcom in recommending reference to the CC.

Shareholding before and after spin-off of Sky News and acquisition of BSkyB publicly quoted shares

BSkyB Shareholding Today



Publicly traded company

News Corp interest

- 39% economic
- 37% voting

Majority of board non-executive and independent

Board appoints the CEO

BSkyB and NewsCo (Sky News) Shareholding After Spin-Off



100% subsidiary of News Corporation



Publicly traded company

News Corp interest

- 39% economic
- 37% voting

Majority of board non-exec & independent

Board appoints the CEO

■ News Corp shareholding (direct and indirect)

Sky News plc has a strong investment case for shareholders

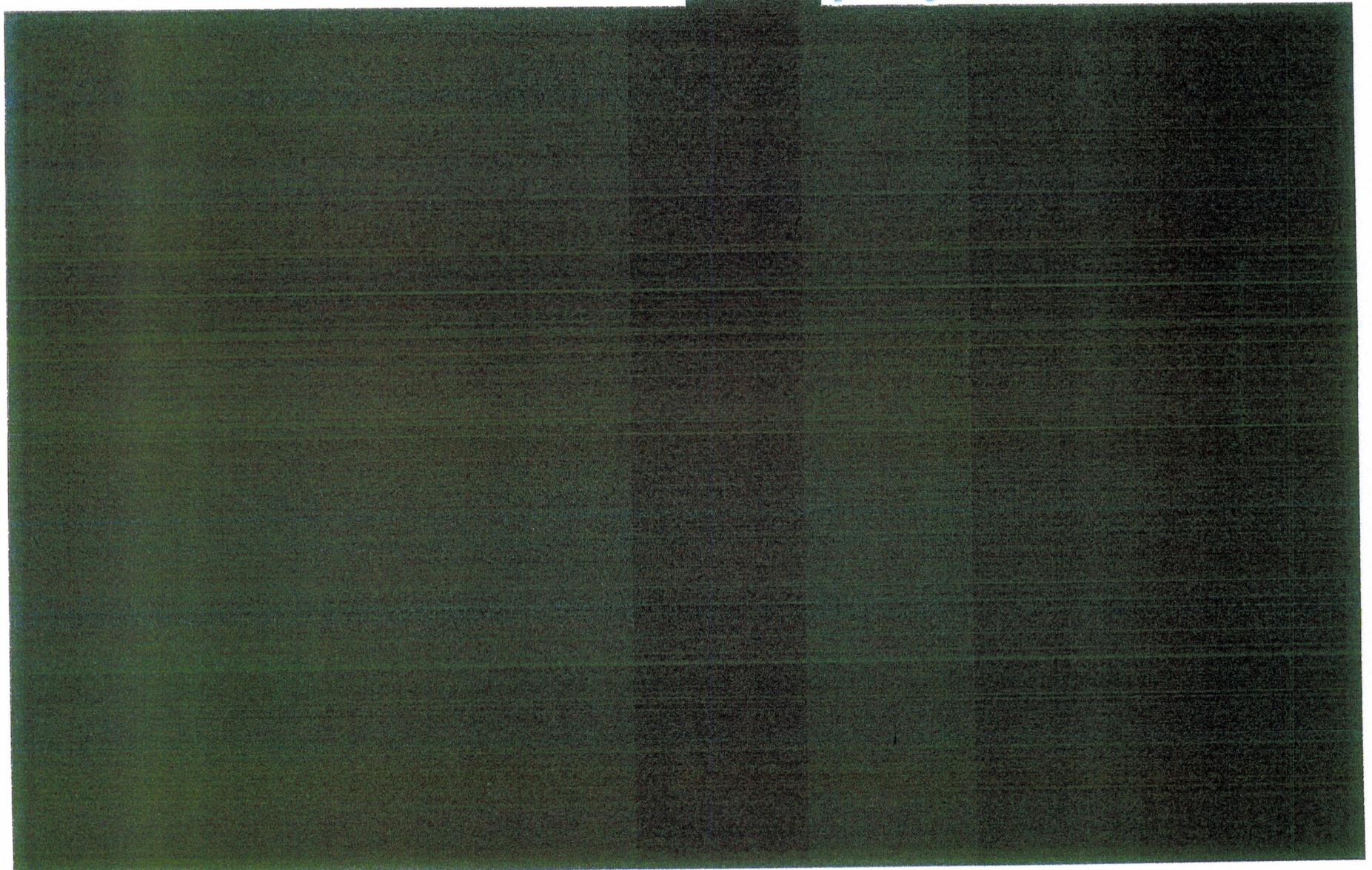
- Established business, profitable from the start
 - Very high conversion from profit to cash
 - Conservative assumptions for growth in carriage fees and ad market
- Revenues underpinned by a 10-year carriage deal with BSkyB and well established advertising and international syndication revenue streams
- Very resilient to adverse market conditions
 - Sufficient cash endowment and cash generation to ride out a severe ad market downturn
 - Subscription revenues are very robust to economic conditions
- Strong and predictable growth from increasing HD penetration at BSkyB, and from growth in the size of the digital TV advertising market
- Also, potential further growth prospects
 - Expansion of international news channel and content supply business
 - Growth of subscriptions for applications on iPad, Galaxy and other devices in the future

“Sky News plc” business plan - overview

- Newsco will be profitable from day one, with very resilient revenues
 - Revenues underpinned by a 10-year carriage deal with Sky, and by advertising and international syndication revenues.
- Sky has always taken the view that the provision of Sky News (a high-quality, Sky-branded news service) is an important part of its offering.
 - On this basis, Sky has invested in Sky News over the last two decades, and continues to fund the approximately [REDACTED] net cost after advertising and syndication revenues of providing the channel.
- After a spin-off, Sky will still consider the provision Sky News as being important part of its offering, and on that basis will pay a carriage fee to be able to offer the service to its subscribers for the next decade.

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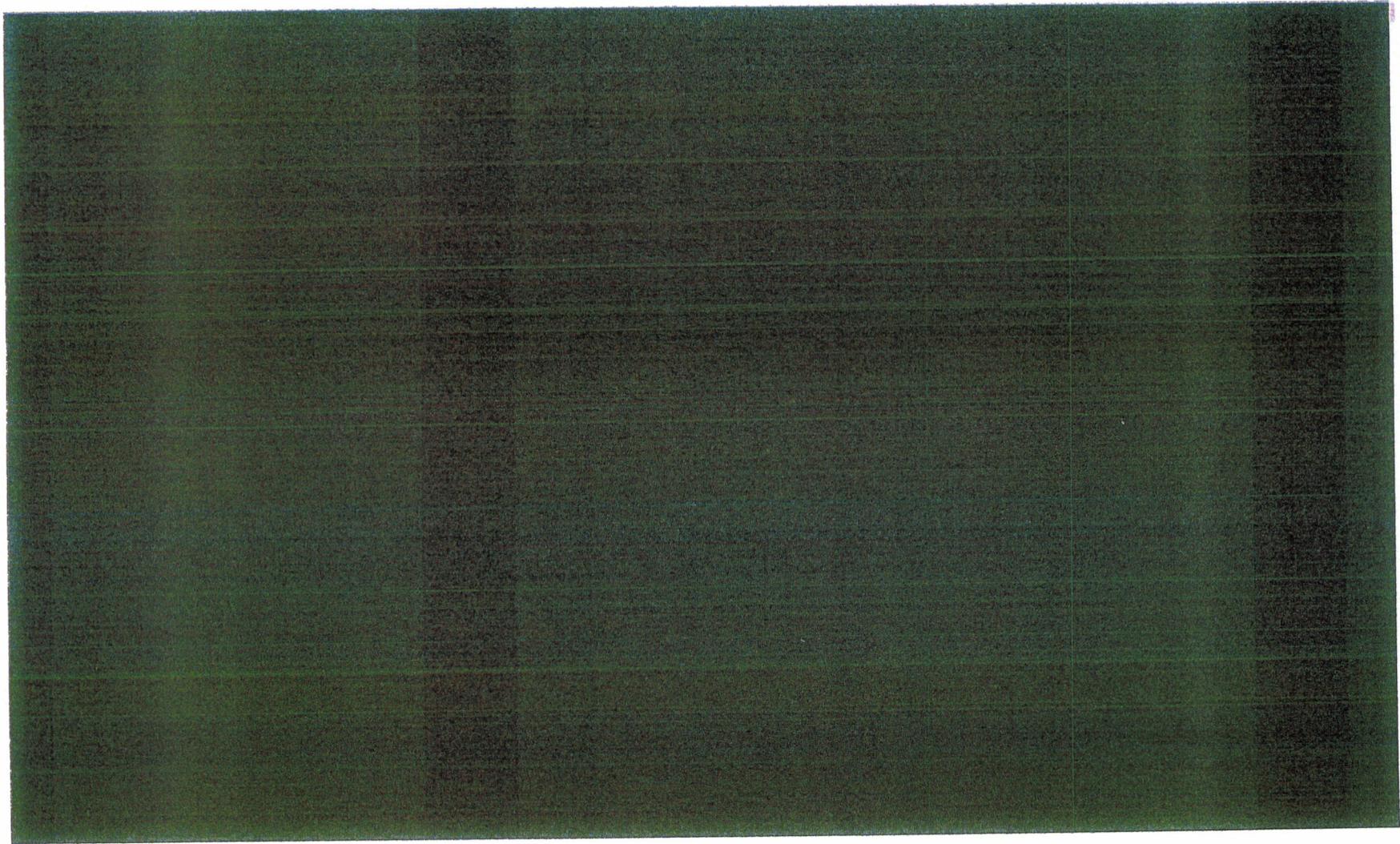
Revenues in excess of £ [redacted] per year



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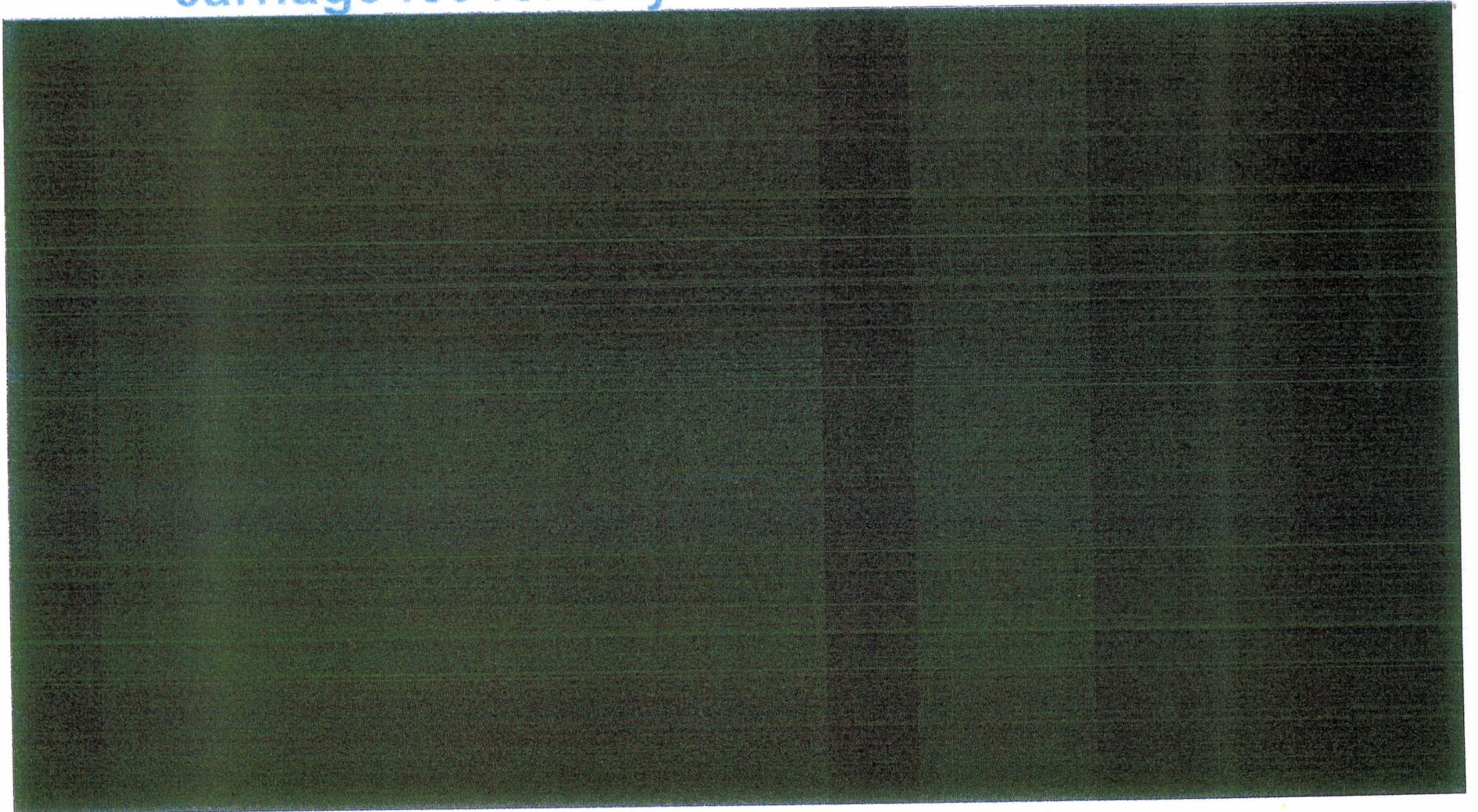
Summary of the costs of the Sky News

Cost base of ~£ [redacted] per year includes all assets, staff, services and contracts needed by Sky News

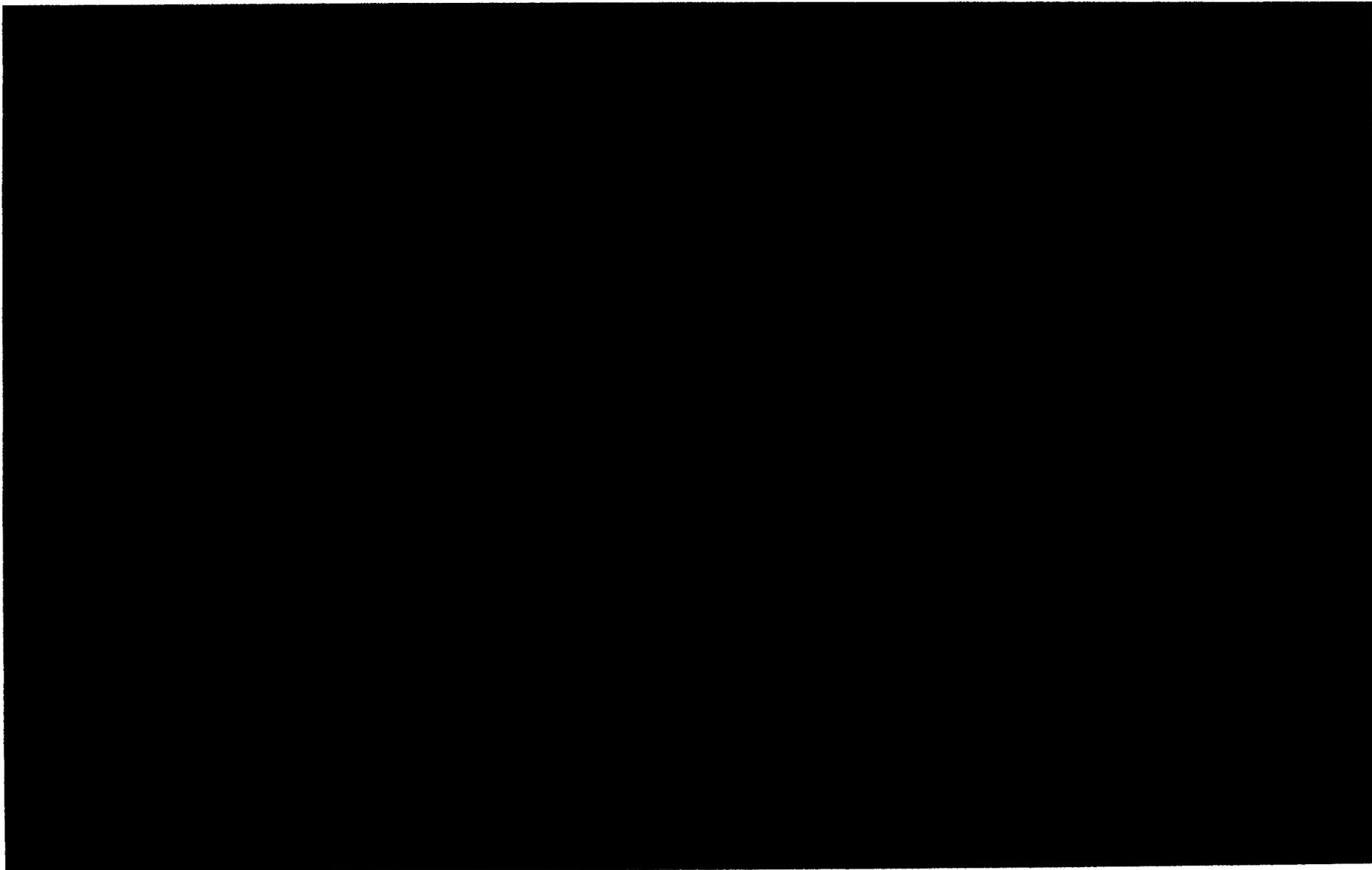


Source: Sky News, 10/10/2010

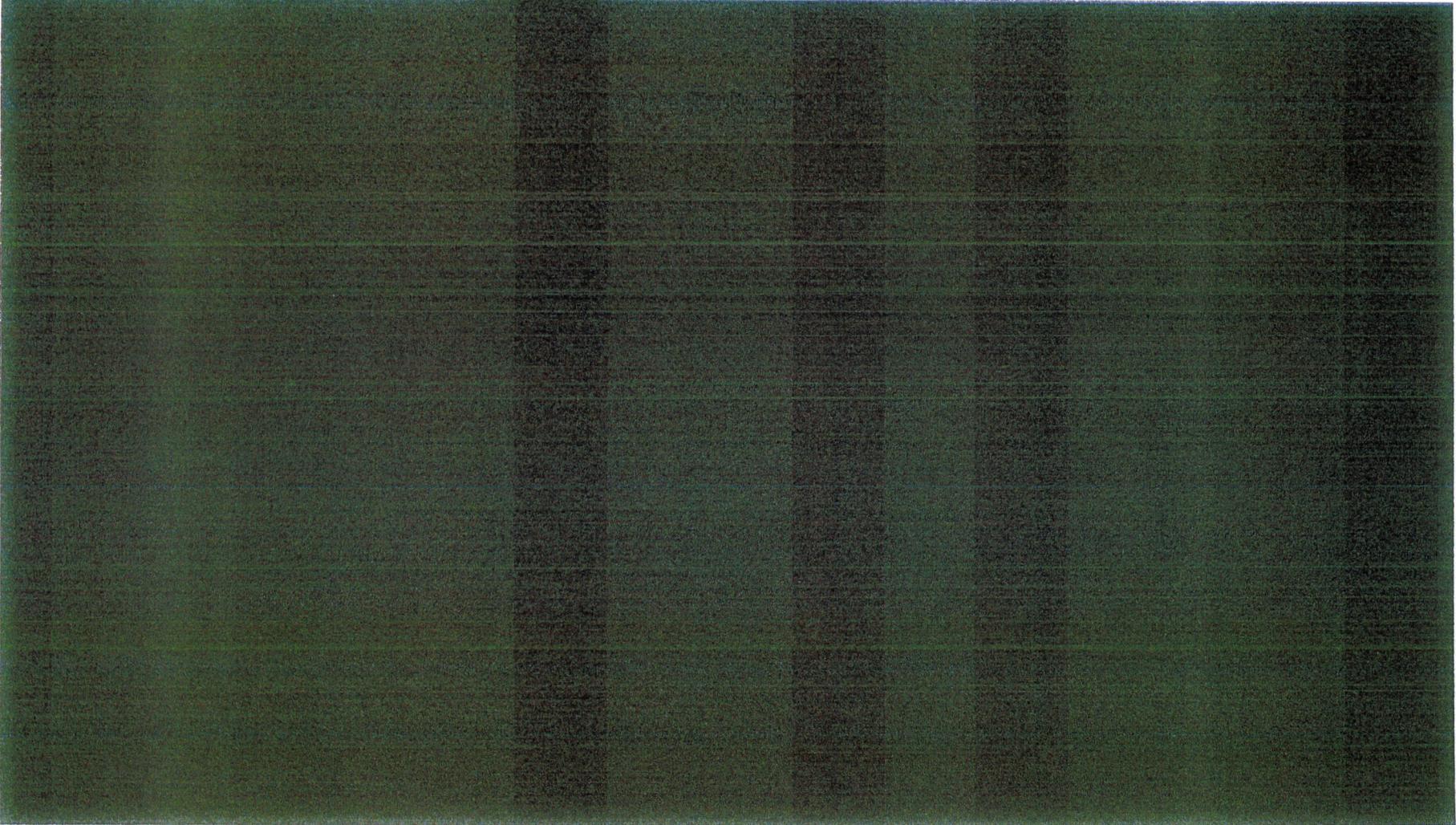
BSkyB would pay enter into a 10-year carriage fee for Sky News



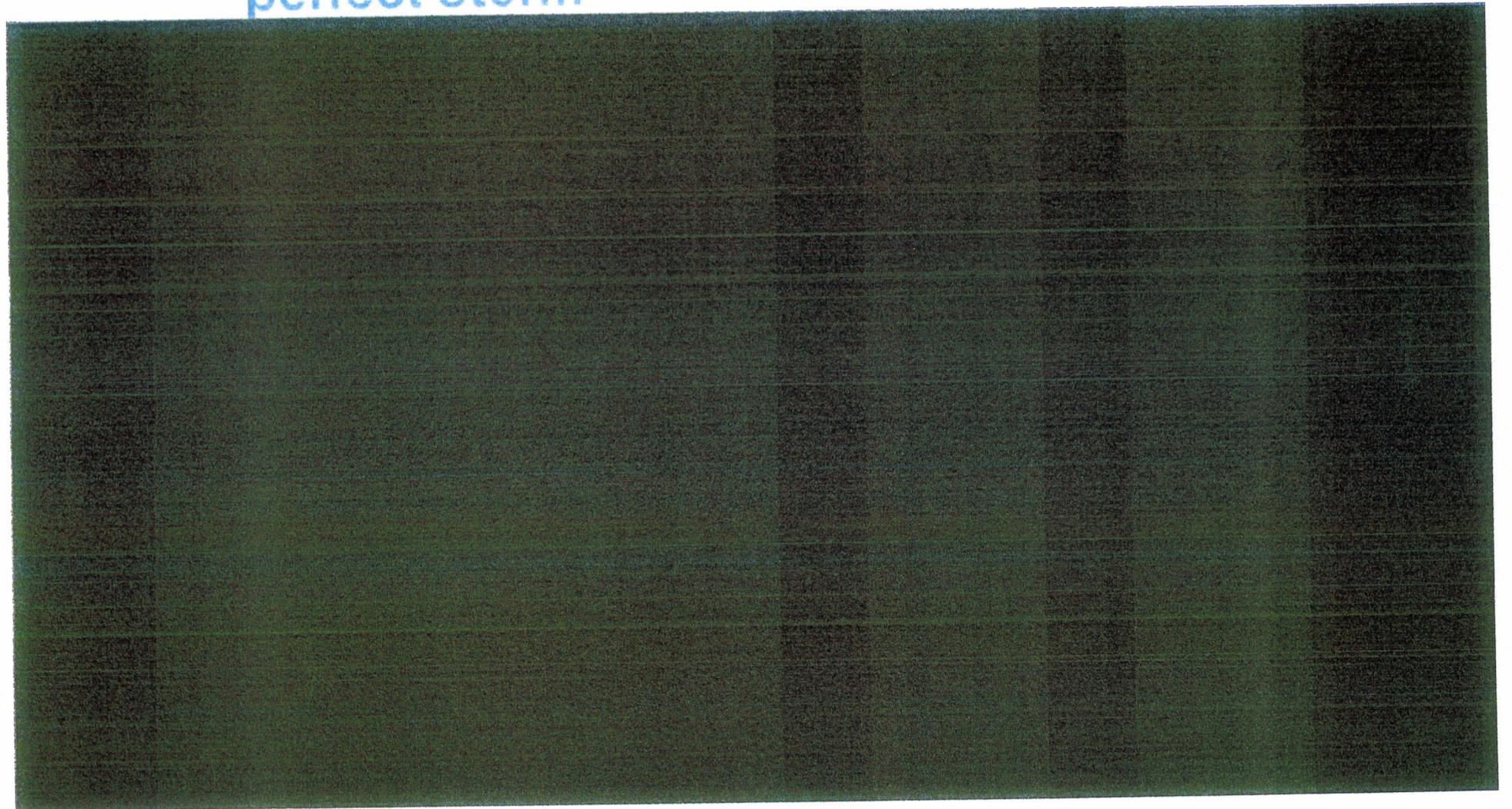
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Sky News plc business plan shows profit rising
to a steady ~£[redacted] per year



Sky News plc is resilient even in an economic
“perfect storm”



UIL: Main Steps

- Step 1: The formation of a new public limited company incorporated under the laws of England and Wales (**Newco**) as a subsidiary of Sky.
- Step 2: The transfer of the business of Sky News into Newco in exchange for shares in Newco and the entering into of commercial agreements between Sky and Newco.
- Step 3: Corporate governance arrangements of Newco to mirror the existing arrangements of Sky.
- Step 4: The spin-off of shares in Newco to shareholders of Sky in the same proportions as their shareholdings in Sky.
- Step 5: Admission to public trading of Newco shares.

Step 1: Formation of Newco

- Newco will be a public limited company incorporated under the laws of England and Wales.
 - If Transaction is recommended by Sky's board, it is likely that Newco would be formed by Sky before the Transaction is implemented.
 - If Transaction is not recommended by Sky's board, it is likely that Newco would be formed after News had acquired a majority of the shares of Sky and had obtained control of the Sky board. Once News controls the Sky board, it will be in a position to take the following steps by virtue of its board majority.

Step 2: Sky News Business Transferred into Newco

- The Sky News business will be transferred into Newco in exchange for shares in Newco.
- A transfer of business agreement will be entered into between Newco and Sky so as to enable Newco to benefit from the following:
 - Sky News tangible assets;
 - staff, including key Sky News editorial staff;
 - licences and permits;
 - Sky News carriage agreements between Sky and third parties including with Virgin Media and UPC; and
 - wholesale contracts with Channel 5 and IRN.

Step 2 (cont): Carriage Agreement with Newco

- Sky will enter into a 10 year carriage agreement with Newco (described further in business plan).
 - Carriage agreements are standard in this industry and Sky currently has carriage agreements with at least 35 entities for over 120 third party channels (e.g. Disney, Discovery, UKTV).
 - Key features of Sky News carriage agreement:
 - term of 10 years;
 - carriage fee which will provide significant and committed long term revenue stream (see business plan);
 - will not provide Sky (or News) with any ability to determine or influence the editorial content of Sky News output or the appointment or termination of editors or other staff of Newco; and
 - will be terminable by Sky only: (i) in the event of material breach that has not been cured; or (ii) in the event that Newco ceases to provide output which is branded "Sky News".

Step 2 (cont): "Sky News" Brand Licensing Agreement with Newco

- Sky will enter into a brand licensing agreement with Newco.
 - Agreement will be modelled on existing arms'-length arrangements with Sky Deutschland (an entity in which News has a 49% equity interest).
 - Key features of brand licensing agreement:
 - licence of the Sky News brand for use in connection with Newco news output;
 - term = 7 years + 7 years + 3 years (following Sky Deutschland model);
 - will not provide Sky (or News) with any ability to determine or influence the editorial content of Sky News output or the appointment or termination of editors or other staff of Newco; and
 - will be terminable by Sky only in the event of: (i) a material breach that has not been cured; or (ii) in the event of a change in control of Newco.

Step 2 (cont): Operational Agreements between Sky and Newco

- Sky will, if required by Newco, enter into the agreements to provide facilities and support services to Newco, on arms'-length terms.
 - Operational agreements to be offered to Newco include:
 - ad sales agreement;
 - a lease of Sky News land and buildings;
 - a site support services agreement;
 - a broadcast services agreement;
 - a technical services agreement.

Step 3: Corporate Governance to reflect Sky

- News is considering Alternative Investment Market (AIM) as the appropriate market for Newco shares to be traded.
- Newco will:
 - adhere to the obligations imposed by the Listing Rules as regards compliance with the principles set out in the UK Corporate Governance Code; and
 - include in its articles provisions to give equivalent effect to Chapter 11 of the Listing Rules in relation to material transactions between Newco and News or Sky.
- This will provide symmetry between corporate governance of Newco and existing corporate governance of Sky.

Step 3 (cont): Corporate Governance to reflect Sky

Newco	Sky
Newco board, including the independent non-executive directors, to be appointed (this would occur prior to spin-off of Newco).	√
News will be subject to a voting limitation of 37.19% of the total votes of Newco on the same terms as currently apply in relation to Sky.	√
A majority of the board of Newco shall comprise non-executive directors determined by that board to be independent.	√
Material transactions between Newco and News or Sky shall require the approval of Newco's audit committee (exclusively independent non-executive directors) / board, and, in some cases, independent shareholder approval.	√
Newco will adhere in its articles to the obligations imposed by the Listing Rules as regards compliance with the principles set out in the UK Corporate Governance Code.	√

Step 4: Spin off of Shares of Newco

- Shares in Newco will be spun off to shareholders of Sky in the same proportions as their shareholdings in Sky.
 - News' shareholding in Newco on completion of the spin-off will be 39.14%.
 - If Transaction is recommended, it is likely that the spin-off will be approved as part of the scheme to implement the Transaction.
 - Sky shareholders will receive shares of Newco and cash in return for their Sky shares.
 - Spin-off will occur at or shortly after implementation of the Transaction.
 - If Transaction is not recommended, News will implement through an offer.
 - Shareholders will receive cash and an entitlement to shares in Newco following that offer becoming unconditional.
 - Spin-off will be implemented post-the acquisition of control by Sky and will occur within 9 months of News acquiring control of Sky.

News' future acquisition of shares in Newco

- News' level of shareholding in Newco will be such that any further acquisition of shares by News will:
 - trigger a mandatory bid under the Takeover Code;
 - and as a consequence, lead to a “relevant merger situation” with consequent statutory regulatory approvals.

Conclusions

- The UIL proposal is structural and clear cut - it preserves the status quo in relation to the structural and editorial independence of Sky News.
- All current corporate governance arrangements applicable to Sky will be maintained in relation to Newco.
- Newco will be a publicly-traded, profit-maximizing entity with a viable long term business plan.
- This structural solution creates a new media enterprise on a lasting basis.
- Without prejudice to News' views on the validity of substantive concerns expressed at this stage, no question about sufficiency of plurality post-Transaction can arise as result of this UIL proposal.
- Process and next steps