

TWENTY-FIRST CENTURY FOX, INC.  
Form 10-Q  
May 10, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended  
March 31, 2018

or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period  
from            to  
Commission file number 001-32352

TWENTY-FIRST CENTURY FOX, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware	26-0075658
(State or Other Jurisdiction	(I.R.S. Employer
of Incorporation or Organization)	Identification No.)
1211 Avenue of the Americas, New York, New York	10036
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code (212) 852-7000

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Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company
Emerging growth company		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes No

As of May 4, 2018, 1,054,032,541 shares of Class A Common Stock, par value \$0.01 per share, and 798,520,953 shares of Class B Common Stock, par value \$0.01 per share, were outstanding.

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TWENTY-FIRST CENTURY FOX, INC.

FORM 10-Q

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## TWENTY-FIRST CENTURY FOX, INC.

## UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

	For the three months ended		For the nine months ended	
	March 31,	March 31,	March 31,	March 31,
	2018	2017	2018	2017
Revenues	\$ 7,420	\$ 7,564	\$ 22,459	\$ 21,752
Operating expenses	(4,581 )	(4,824 )	(14,722 )	(13,651 )
Selling, general and administrative	(959 )	(817 )	(2,671 )	(2,424 )
Depreciation and amortization	(145 )	(140 )	(429 )	(410 )
Impairment and restructuring charges	(34 )	(37 )	(58 )	(213 )
Equity losses of affiliates	(86 )	(51 )	(59 )	(57 )
Interest expense, net	(311 )	(310 )	(936 )	(909 )
Interest income	10	9	29	27
Other, net	17	(142 )	(284 )	(241 )
Income from continuing operations before income tax (expense) benefit	1,331	1,252	3,329	3,874
Income tax (expense) benefit	(370 )	(370 )	457	(1,161 )
Income from continuing operations	961	882	3,786	2,713
Loss from discontinued operations, net of tax	(18 )	(12 )	(7 )	(19 )
Net income	943	870	3,779	2,694
Less: Net income attributable to noncontrolling interests	(85 )	(71 )	(235 )	(218 )
Net income attributable to Twenty-First Century Fox, Inc. stockholders	\$ 858	\$ 799	\$ 3,544	\$ 2,476
<b>EARNINGS PER SHARE DATA</b>				
Income from continuing operations attributable to Twenty-First Century Fox, Inc. stockholders - basic and diluted	\$ 876	\$ 811	\$ 3,551	\$ 2,495
Weighted average shares				
Basic	1,853	1,851	1,852	1,855
Diluted	1,858	1,853	1,855	1,857
Income from continuing operations attributable to Twenty-First Century Fox, Inc. stockholders per share:				
Basic	\$ 0.47	\$ 0.44	\$ 1.92	\$ 1.35
Diluted	\$ 0.47	\$ 0.44	\$ 1.91	\$ 1.34
	\$ 0.46	\$ 0.43	\$ 1.91	\$ 1.33

Net income attributable to Twenty-First Century Fox, Inc.  
stockholders per share - basic and diluted

The accompanying notes are an integral part of these Unaudited Consolidated Financial Statements.

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## TWENTY-FIRST CENTURY FOX, INC.

## UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(IN MILLIONS)

	For the three months ended		For the nine months ended	
	March 31, 2018	2017	March 31, 2018	2017
Net income	\$ 943	\$ 870	\$ 3,779	\$ 2,694
Other comprehensive (loss) income, net of tax				
Foreign currency translation adjustments	21	111	100	(40 )
Cash flow hedges	3	6	2	19
Unrealized holding (losses) gains on securities	(94 )	-	85	-
Benefit plan adjustments	4	74	71	117
Equity method investments	25	-	83	(163 )
Other comprehensive (loss) income, net of tax	(41 )	191	341	(67 )
Comprehensive income	902	1,061	4,120	2,627
Less: Net income attributable to noncontrolling interests <sup>(a)</sup>	(85 )	(71 )	(235 )	(218 )
Less: Other comprehensive (income) loss attributable to noncontrolling interests	(9 )	(4 )	(22 )	16
Comprehensive income attributable to Twenty-First Century Fox, Inc. stockholders	\$ 808	\$ 986	\$ 3,863	\$ 2,425

<sup>(a)</sup>Net income attributable to noncontrolling interests includes \$51 million and \$43 million for the three months ended March 31, 2018 and 2017, respectively, and \$128 million and \$113 million for the nine months ended March 31, 2018 and 2017, respectively, relating to redeemable noncontrolling interests.

The accompanying notes are an integral part of these Unaudited Consolidated Financial Statements.

## TWENTY-FIRST CENTURY FOX, INC.

## CONSOLIDATED BALANCE SHEETS

(IN MILLIONS, EXCEPT SHARE AND PER SHARE AMOUNTS)

	As of	As of
	March 31,	June 30,
	2018	2017
	(unaudited)	(audited)
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 7,372	\$ 6,163
Receivables, net	6,905	6,477
Inventories, net	3,645	3,101
Other	739	545
Total current assets	18,661	16,286
Non-current assets		
Receivables, net	736	543
Investments	4,256	3,902
Inventories, net	8,002	7,452
Property, plant and equipment, net	1,861	1,781
Intangible assets, net	6,174	6,574
Goodwill	12,794	12,792
Other non-current assets	1,494	1,394
Total assets	\$ 53,978	\$ 50,724
<b>LIABILITIES AND EQUITY</b>		
Current liabilities		
Borrowings	\$ 1,538	\$ 457
Accounts payable, accrued expenses and other current liabilities	3,979	3,451
Participations, residuals and royalties payable	1,682	1,657
Program rights payable	1,183	1,093
Deferred revenue	717	580
Total current liabilities	9,099	7,238
Non-current liabilities		
Borrowings	18,459	19,456
Other liabilities	3,798	3,616
Deferred income taxes	1,638	2,782
Redeemable noncontrolling interests	761	694



Commitments and contingencies		
Equity		
Class A common stock <sup>(a)</sup>	11	11
Class B common stock <sup>(b)</sup>	8	8
Additional paid-in capital	12,530	12,406
Retained earnings	8,121	5,315
Accumulated other comprehensive loss	(1,699 )	(2,018 )
Total Twenty-First Century Fox, Inc. stockholders' equity	18,971	15,722
Noncontrolling interests	1,252	1,216
Total equity	20,223	16,938
Total liabilities and equity	\$ 53,978	\$ 50,724

<sup>(a)</sup>Class A common stock, \$0.01 par value per share, 6,000,000,000 shares authorized, 1,054,015,230 shares and 1,052,536,963 shares issued and outstanding, net of 123,687,371 treasury shares at par as of March 31, 2018 and June 30, 2017, respectively.

<sup>(b)</sup>Class B common stock, \$0.01 par value per share, 3,000,000,000 shares authorized, 798,520,953 shares issued and outstanding, net of 356,993,807 treasury shares at par as of March 31, 2018 and June 30, 2017.

The accompanying notes are an integral part of these Unaudited Consolidated Financial Statements.

## TWENTY-FIRST CENTURY FOX, INC.

## UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN MILLIONS)

	For the nine months ended	
	March 31, 2018	2017
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 3,779	\$ 2,694
Less: Loss from discontinued operations, net of tax	(7 )	(19 )
Income from continuing operations	3,786	2,713
Adjustments to reconcile income from continuing operations to cash provided by operating activities		
Depreciation and amortization	429	410
Amortization of cable distribution investments	57	46
Impairment and restructuring charges	58	213
Equity-based compensation	166	97
Equity losses of affiliates	59	57
Cash distributions received from affiliates	110	182
Other, net	284	241
Deferred income taxes and other taxes	(1,276 )	(70 )
Change in operating assets and liabilities, net of acquisitions and dispositions		
Receivables	(599 )	(1,146 )
Inventories net of program rights payable	(1,003 )	(966 )
Accounts payable and accrued expenses	360	286
Other changes, net	(229 )	364
Net cash provided by operating activities from continuing operations	2,202	2,427
<b>INVESTING ACTIVITIES</b>		
Property, plant and equipment	(343 )	(202 )
Investments in equity affiliates	(325 )	(18 )
Proceeds from dispositions, net	365	-
Other investments	(117 )	(148 )
Net cash used in investing activities from continuing operations	(420 )	(368 )
<b>FINANCING ACTIVITIES</b>		
Borrowings	1,550	879
Repayment of borrowings	(1,479 )	(546 )
Repurchase of shares	-	(619 )
Dividends paid and distributions	(579 )	(522 )
Other financing activities, net	(69 )	(72 )

Net cash used in financing activities from continuing operations	(577 )	(880 )
Net decrease in cash and cash equivalents from discontinued operations	(42 )	(21 )
Net increase in cash and cash equivalents	1,163	1,158
Cash and cash equivalents, beginning of year	6,163	4,424
Exchange movement on cash balances	46	(10 )
Cash and cash equivalents, end of period	\$ 7,372	\$ 5,572

The accompanying notes are an integral part of these Unaudited Consolidated Financial Statements.

TWENTY-FIRST CENTURY FOX, INC.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. BASIS OF PRESENTATION

Twenty-First Century Fox, Inc., a Delaware corporation, and its subsidiaries (together, “Twenty-First Century Fox” or the “Company”) is a diversified global media and entertainment company, which currently manages and reports its businesses in the following four segments: Cable Network Programming, Television, Filmed Entertainment and Other, Corporate and Eliminations.

The accompanying Unaudited Consolidated Financial Statements of Twenty-First Century Fox have been prepared in accordance with United States (“U.S.”) generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments consisting only of normal recurring adjustments necessary for a fair presentation have been reflected in these Unaudited Consolidated Financial Statements. Operating results for the interim periods presented are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2018.

These interim Unaudited Consolidated Financial Statements and notes thereto should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2017 as filed with the Securities and Exchange Commission (the “SEC”) on August 14, 2017 (the “2017 Form 10-K”).

The Unaudited Consolidated Financial Statements include the accounts of Twenty-First Century Fox. All significant intercompany accounts and transactions have been eliminated in consolidation, including the intercompany portion of transactions with equity method investees. Investments in and advances to entities or joint ventures in which the Company has significant influence, but less than a controlling voting interest, are accounted for using the equity method. Investments in which the Company has no significant influence are designated as available-for-sale investments if readily determinable market values are available. If an investment’s fair value is not readily determinable, the Company accounts for its investment at cost.

The preparation of the Company’s consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts that are reported in the consolidated financial statements and accompanying disclosures. Actual results may differ from those estimates.

Certain fiscal 2017 amounts have been reclassified to conform to the fiscal 2018 presentation. Unless indicated otherwise, the information in the notes to the Unaudited Consolidated Financial Statements relates to the Company’s continuing operations.

The Company has reclassified certain fiscal 2017 amounts for development and certain other costs from Selling, general and administrative to Operating expenses within the Consolidated Statement of Operations to conform to the fiscal 2018 presentation. These reclassifications did not affect previously reported Revenue, Income from continuing operations before income tax (expense) benefit or Net income in the Consolidated Statement of Operations.

Recently Adopted and Recently Issued Accounting Guidance and U.S. Tax Reform

Adopted

In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-09, “Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting” (“ASU 2016-09”). The amendments in ASU 2016-09 simplify various aspects related to how share-based payments are accounted for and presented in the financial statements, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. On July 1, 2017, the Company adopted ASU 2016-09. In accordance with ASU 2016-09, the Company will prospectively recognize all excess tax benefits and tax deficiencies in Income tax (expense) benefit in the Statements of Operations. In the statement of cash flows, all excess tax benefits are presented retrospectively in Net cash provided by operating activities from continuing operations. In addition, the Company retrospectively adopted the guidance that requires cash paid by the Company when directly withholding shares for tax withholding purposes to be classified as a financing activity in the statement of cash flows. The adoption of ASU 2016-09 resulted in an increase in Net cash provided by operating activities from continuing operations and a corresponding increase in Net cash used in financing activities from continuing operations in the Statement of Cash Flows for fiscal 2017. The other aspects of ASU 2016-09 did not have a material effect on the Company’s consolidated financial statements.

TWENTY-FIRST CENTURY FOX, INC.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

On July 1, 2017, the Company early adopted ASU 2017-07, “Compensation–Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost” (“ASU 2017-07”). ASU 2017-07 requires an employer to report the service cost component of net benefit cost in the same line item as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations. ASU 2017-07 did not have a material effect on the Company’s consolidated financial statements.

Issued

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers (Topic 606)” (“ASU 2014-09”). The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, ASU 2014-09 requires additional disclosure around the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. ASU 2014-09 will be effective for the Company for annual and interim reporting periods beginning July 1, 2018. The Company expects to apply ASU 2014-09 on a modified retrospective basis with the cumulative effect, if any, of initially applying the new guidance recognized at the date of initial application as an adjustment to opening retained earnings. The Company has substantially completed its review of contracts for each of the Company’s significant revenue streams and does not expect a material impact on its consolidated financial statements as a result of its adoption of ASU 2014-09. The Company expects that the new standard will impact the timing of revenue recognition for renewals or extensions of existing licensing agreements for intellectual property, which upon adoption will be recognized as revenue once the customer can begin to use and benefit from the license rather than when the agreement is extended or renewed, under historical GAAP. The new standard will require the Company’s Filmed Entertainment segment to recognize revenues from certain television license deals earlier as opposed to recognizing those license fees over the term of the licenses. Conversely, revenues from certain of the Filmed Entertainment segment’s trademark licensing deals will be recognized over the license terms as opposed to recognition at inception as under historical GAAP. In addition, the Company is implementing appropriate changes to the Company’s processes, systems and controls to support the recognition and disclosure requirements under the new standard.

In August 2017, the FASB issued ASU 2017-12, “Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities” (“ASU 2017-12”). The objective of ASU 2017-12 is to better align an entity’s risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. In addition, ASU 2017-12 simplifies the assessment of hedge effectiveness. ASU 2017-12 is effective for the Company for annual and interim reporting periods beginning July 1, 2019. Early adoption is permitted in an interim period. The Company is currently evaluating the impact ASU 2017-12 will have on its consolidated financial statements.

U.S. Tax Reform

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the “Tax Act”). The Tax Act significantly revises the future ongoing U.S. corporate income tax by, among other things, lowering U.S. corporate income tax rates and implementing a territorial tax system. Since the Company has a June 30 fiscal year-end, the lower corporate income tax rate will be phased in, resulting in a U.S. statutory federal rate of approximately 28% for the Company’s fiscal year ending June 30, 2018, and 21% for

subsequent fiscal years. As part of the transition to the new territorial tax system, the Tax Act imposes a one-time transition tax on deemed repatriation of historical earnings of foreign entities.

As of March 31, 2018, the Company has not completed its analysis of the accounting for all the tax effects of the Tax Act. For the nine months ended March 31, 2018, the Company recorded a provisional income tax benefit of \$1.3 billion to adjust its net deferred tax liability position in accordance with the Tax Act. The net deferred tax liability represents future tax obligations. Among the Company's more significant net deferred tax liabilities are basis differences and amortization, and sports rights contracts. The final amount of the adjustment to the net deferred tax liability could be revised based on changes in interpretations of the Tax Act and any updates or changes to estimates based on additional information the Company obtains or analyzes. For the three months ended March 31, 2018, there were no changes to the provisional amount previously recorded.

TWENTY-FIRST CENTURY FOX, INC.

## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The Company has not recorded a liability for the transition tax to a territorial tax system. The Company is continuing to gather and analyze information to determine the deemed unremitted earnings subject to the transition tax, some of which was not previously needed or not yet accumulated, and the related U.S. tax impacts. The Company currently anticipates recording a provisional amount for the transition tax by the end of the current fiscal year.

In February 2018, the FASB issued ASU 2018-02, "Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income" ("ASU 2018-02"). The objective of ASU 2018-02 is to eliminate the stranded tax effects resulting from the Tax Act and to improve the usefulness of information reported to financial statement users. ASU 2018-02 is effective for the Company for annual and interim reporting periods beginning July 1, 2019. Early adoption is permitted, including adoption in any interim period. The Company is currently evaluating the impact ASU 2018-02 will have on its consolidated financial statements.

In March 2018, the FASB issued ASU 2018-05, "Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118" ("ASU 2018-05"). The objective of ASU 2018-05 is to codify previously-issued SEC guidance allowing for a measurement period of up to one year after the enactment date of the Tax Act to finalize the recording of the related tax impacts. There may be adjustments to the provisional amounts recorded during this measurement period and such adjustments could possibly be material.

### NOTE 2. ACQUISITIONS, DISPOSALS AND OTHER TRANSACTIONS

Fiscal 2018

#### Disney Transaction/Distribution of New Fox

In December 2017, the Company entered into an Agreement and Plan of Merger (as amended, the "Merger Agreement") with The Walt Disney Company ("Disney"). Prior to the consummation of the Initial Merger (as hereinafter defined), the Company will transfer a portfolio of the Company's news, sports and broadcast businesses, including the Fox News Channel, Fox Business Network, FOX Broadcasting Company, Fox Sports, Fox Television Stations Group, FS1, FS2, Fox Deportes and Big Ten Network and certain other assets and liabilities into a newly formed subsidiary ("New Fox") (the "New Fox Separation") and distribute all of the issued and outstanding common stock of New Fox to the holders of the outstanding shares of the Company's Class A Common Stock and Class B Common Stock (other than holders that are subsidiaries of the Company (shares held by such holders, the "Hook Stock")) on a pro rata basis (the "New Fox Distribution"). Prior to the New Fox Distribution, New Fox will pay the Company a dividend in the amount of \$8.5 billion. New Fox will incur indebtedness sufficient to fund the dividend, which indebtedness will be reduced after the initial merger by the amount of the Cash Payment (as hereinafter defined). As the New Fox Separation and New Fox Distribution will be taxable to the Company at the corporate level, the dividend is intended to fund the taxes resulting from the New Fox Separation and New Fox Distribution and certain other transactions contemplated by the Merger Agreement (the "Transaction Tax"). The Company will retain all assets and liabilities not transferred to New Fox, including the Twentieth Century Fox Film and Television studios and certain cable and international television businesses, including FX Networks, National Geographic Partners, Fox Sports Regional Networks, Fox Networks Group International and Star India, as well as the Company's interests in Hulu LLC ("Hulu"), Sky plc ("Sky"), Tata Sky Limited and Endemol Shine Group. Following the New Fox Distribution, TWC Merger Enterprises 2 Corp., a wholly owned subsidiary of Disney ("Merger Sub") will merge with and into the Company (the "Initial Merger"), with the Company surviving (the "Surviving Corporation"). Immediately after the effective time of the Initial Merger, the



Surviving Corporation will merge with and into TWC Merger Enterprises 1, LLC, a wholly owned subsidiary of Disney ("Merger LLC"), with Merger LLC to be the surviving entity (the "Subsequent Merger," and together with the Initial Merger, the "Mergers"). As a result of the Mergers, the Company will become a wholly owned subsidiary of Disney.

Upon consummation of the Disney Transaction, each issued and outstanding share of the Company's Class A Common Stock and Class B Common Stock (other than the Hook Stock) will be exchanged automatically for 0.2745 shares of common stock, par value \$0.01 per share, of Disney ("Disney Common Stock"). The exchange ratio may be subject to an adjustment based on the final estimate of certain tax liabilities arising from the New Fox Separation and the New Fox Distribution and other transactions contemplated by the Merger Agreement. The initial exchange ratio in the Merger Agreement of 0.2745 shares of Disney Common Stock for each share of the Company's Class A Common Stock and Class B Common Stock (other than the Hook Stock) was set based on an estimate of \$8.5 billion for the Transaction Tax, and will be adjusted immediately prior to consummation of the Disney Transaction if the final estimate of the Transaction Tax at closing is more than \$8.5 billion or less than \$6.5 billion. Such adjustment could increase or decrease

TWENTY-FIRST CENTURY FOX, INC.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

the exchange ratio, depending on whether the final estimate is higher or lower, respectively, than \$6.5 billion or \$8.5 billion. Additionally, if the final estimate of the tax liabilities is lower than \$8.5 billion, Disney will make a cash payment to New Fox reflecting the difference between such amount and \$8.5 billion, up to a maximum cash payment of \$2 billion (the "Cash Payment"). The foregoing proposed transactions are collectively referred to in this report as the "Disney Transaction".

To provide New Fox with financing in connection with the New Fox Distribution, 21st Century Fox America, Inc. ("21CFA"), a wholly-owned subsidiary of the Company, entered into a commitment letter on behalf of New Fox with the financial institutions party thereto (the "Bridge Commitment Letter") which provides for borrowings of up to \$9 billion. Given the Company's current debt ratings, 21CFA pays a commitment fee of 0.1%. While the Company has entered into the Bridge Commitment Letter, New Fox intends to finance the dividend by obtaining permanent financing in the capital markets on a standalone basis.

Under the terms of the Merger Agreement, Disney will pay the Company \$2.5 billion if the merger is not consummated under certain circumstances relating to the failure to obtain approvals, or there is a final, non-appealable order preventing the transaction, in each case, relating to antitrust laws, communications laws or foreign regulatory laws. If the Merger Agreement is terminated under certain other circumstances relating to changes in board recommendations and/or alternative transactions, the Company or Disney may be required to pay the other party approximately \$1.5 billion.

In connection with the Disney Transaction, the Company has made certain representations, warranties and covenants, including, among other things, customary pre-closing covenants by the Company to conduct its business in the ordinary course consistent with past practice and refraining from taking certain actions without Disney consent. The consummation of the Disney Transaction is subject to various conditions, including among others, (i) customary conditions relating to the adoption of the Merger Agreement by the requisite vote of the Company's stockholders and the approval of the stock issuance by the requisite vote of Disney stockholders, (ii) the consummation of the New Fox Separation, (iii) the receipt of a tax ruling from the Australian Taxation Office and certain tax opinions with respect to the treatment of the transaction under U.S. and Australian tax laws, and (iv) the receipt of certain regulatory approvals and governmental consents. The Mergers and New Fox Separation are expected to be completed in approximately 12 to 18 months from December 13, 2017.

In February 2018, the Compensation Committee of the Board of Directors of the Company (the "Compensation Committee") established a cash bonus retention plan for certain employees of approximately \$110 million of which 50% is payable at the time of the Initial Merger and 50% on the 10-month anniversary of the Initial Merger, subject to each participant's continued employment through the applicable payment date. The cash bonus retention payment plans are subject to accelerated payment upon the occurrence of certain termination events. In addition, the Compensation Committee modified certain equity awards and granted additional equity awards to certain executives (See Note 8 – Equity-based Compensation). The modification and grant of equity awards and the cash bonus retention plan resulted in additional compensation expenses of approximately \$85 million for the three and nine months ended March 31, 2018, of which approximately \$60 million was included in Selling, general and administrative expenses and the remaining amount was included in Other, net in the Unaudited Consolidated Statements of Operations.

Television Stations Acquisition

In May 2018, the Company entered into a definitive agreement (the “Purchase Agreement”) with Sinclair Broadcast Group, Inc. (“Sinclair”) and Tribune Media Company (“Tribune”) to acquire seven television stations from Tribune for approximately \$910 million subject to certain purchase price adjustments. As part of the transaction, the Company entered into new network affiliation agreements with Sinclair and will grant to Sinclair options to acquire two of the Company’s stations. Completion of the stations acquisition, which is anticipated to close in the first half of fiscal 2019, is subject to the satisfaction of customary closing conditions, including regulatory approvals and the substantially simultaneous closing of Sinclair’s proposed acquisition of Tribune.

Fiscal 2017

#### Sky Acquisition

In December 2016, the Company announced it reached agreement with Sky, in which the Company currently has an approximate 39% interest, on the terms of a recommended pre-conditional cash offer by the Company for the fully diluted share capital of Sky which the Company does not already own (the “Sky Acquisition”), at a price of £10.75 per Sky share

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TWENTY-FIRST CENTURY FOX, INC.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(approximately \$16 billion in the aggregate). The Sky Acquisition remains subject to certain customary closing conditions, including approval by the UK Secretary of State for Digital, Culture, Media and Sport and the requisite approval of Sky shareholders unaffiliated with the Company. The Sky Acquisition has received unconditional clearance by all competent competition authorities including the European Commission, and has been cleared on public interest and plurality grounds in all of the markets in which Sky operates outside of the UK, including Austria, Germany, Italy and the Republic of Ireland. The Company anticipates regulatory approval of the transaction by early summer 2018.

To provide financing in connection with the Sky Acquisition, the Company and 21CFA entered into a bridge credit agreement with the lenders party thereto (the "Bridge Credit Agreement"). The Bridge Credit Agreement provides for borrowings of up to £12.2 billion (approximately \$17 billion). Fees under the Bridge Credit Agreement are based on the Company's long-term senior unsecured non-credit enhanced debt ratings. Given the Company's current debt ratings, 21CFA pays a commitment fee on undrawn funds of 0.1% and the initial interest rate on advances will be London Interbank Offered Rate ("LIBOR") plus 1.125% with subsequent increases every 90 days up to LIBOR plus 1.875%. 21CFA has also agreed to pay a duration fee on each of the 90th, 180th and 270th day after the funding of the loans in an amount equal to 0.50%, 0.75%, and 1.00%, respectively, of the aggregate principal amount of the advances and undrawn commitments outstanding at the time. The terms of the Bridge Credit Agreement also include the requirement that 21CFA maintain a certain leverage ratio and limitations with respect to secured indebtedness. While the Company has entered into the Bridge Credit Agreement, the Company intends to finance the Sky Acquisition by using a significant portion of the available cash on its balance sheet and obtaining permanent financing in the capital markets. The Company purchased a foreign currency exchange option in February 2017, which was subsequently modified in September 2017 and February 2018, to limit its foreign currency exchange rate risk in connection with the Sky Acquisition (See Note 5 – Fair Value under the heading "Foreign Currency Contracts" and Note 11 – Additional Financial Information under the heading "Other, net" for additional information).

The Company believes the Sky Acquisition will result in enhanced capabilities of the combined company, underpinned by a more geographically diverse and stable revenue base, and an improved balance between subscription, affiliate fee, advertising and content revenues.

On April 25, 2018, Comcast Corporation ("Comcast") announced a pre-conditional cash offer for the fully diluted share capital of Sky (the "Comcast Offer") which will be subject to regulatory pre-conditions as well as additional closing conditions. Following the announcement of the Comcast Offer, on April 25, 2018, the independent committee of the Sky Board of Directors (the "Independent Committee") withdrew its previously announced recommendation that unaffiliated Sky shareholders vote in favor of the Sky Acquisition and the Company received from Sky a written notice of termination of the co-operation agreement entered into in December 2016 between the Company and Sky (the "Co-Operation Agreement") pursuant to which the Company and Sky had agreed to certain matters in relation to the Sky Acquisition, including a break fee. As a result of the termination of the Co-Operation Agreement, the break fee will not be payable by the Company in any circumstance. Certain provisions relating to the Company's conduct of the Sky Acquisition survive the termination of the Co-Operation Agreement. Notwithstanding the termination of the Co-Operation Agreement, Sky has stated that the Independent Committee intends to co-operate fully with the Company and Comcast to secure the relevant approvals to satisfy the pre-conditions for both offers. The Company remains committed to the Sky Acquisition and is currently considering its options.

Other

In February 2017, the Company announced that it anticipated receiving approximately \$350 million in proceeds resulting from the Federal Communications Commission's (the "FCC") reverse auction for broadcast spectrum. Consequently, the Company will relinquish spectrum used by its television stations affiliated with both The CW Television Network and Master Distribution Service, Inc. ("MyNetworkTV") in Chicago, IL and MyNetworkTV in the Washington, DC and Charlotte, NC designated market areas, in which the Company operates duopolies. These stations will continue broadcasting using the spectrum of the existing FOX Broadcasting Company ("FOX") owned and operated station in that market. The proceeds were received in July 2017 and the Company recorded a deferred gain on this transaction which will be recognized upon relinquishing the spectrum to the FCC, which is anticipated to occur during the fourth quarter of fiscal 2018.

## TWENTY-FIRST CENTURY FOX, INC.

## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 3. INVENTORIES, NET

The Company's inventories were comprised of the following:

	As of March 31, 2018 (in millions)	As of June 30, 2017
Programming rights		
Sports programming rights	\$3,845	\$3,201
Entertainment programming rights	3,355	3,232
Filmed entertainment costs		
Films		
Released, less accumulated amortization	1,314	1,112
Completed, not released	27	398
In production	1,522	1,094
In development or preproduction	203	295
	-	
	3,066	2,899
Television productions		
Released, less accumulated amortization	853	838
In production, development or preproduction	528	383
	1,381	1,221
Total filmed entertainment costs, less accumulated amortization <sup>(a)</sup>	4,447	4,120
Total inventories, net	11,647	10,553
Less: current portion of inventories, net <sup>(b)</sup>	(3,645 )	(3,101 )
Total non-current inventories, net	\$8,002	\$7,452

<sup>(a)</sup> Does not include \$218 million and \$241 million of net intangible film library costs as of March 31, 2018 and June 30, 2017, respectively, which were included in intangible assets subject to amortization in the Consolidated Balance Sheets.

<sup>(b)</sup> Current portion of inventories, net as of March 31, 2018 and June 30, 2017 was comprised of programming rights (\$3,591 million and \$3,037 million, respectively), DVDs, Blu-rays and other merchandise.

## NOTE 4. INVESTMENTS

The Company's investments were comprised of the following:

		Ownership percentage as of March 31, 2018	As of March 31, 2018	As of June 30, 2017
			(in millions)	
Sky <sup>(a)(b)</sup>	European direct broadcast satellite operator	39%	\$3,485	\$3,175
Endemol Shine Group <sup>(b)</sup>	Global multi-platform content provider	50%	222	262
Other investments <sup>(c)</sup>		various	549	465
Total investments			\$4,256	\$3,902

<sup>(a)</sup>The Company's investment in Sky had a market value of \$12.2 billion as of March 31, 2018 determined using its quoted market price on the London Stock Exchange (a Level 1 measurement as defined in Note 5 – Fair Value). The Company received dividends of approximately \$95 million and \$170 million from Sky for the nine months ended March 31, 2018 and 2017, respectively.

<sup>(b)</sup>Equity method investments.

<sup>(c)</sup>Includes an investment of \$187 million in available-for-sale securities as of March 31, 2018 (See Note 5 – Fair Value).

## TWENTY-FIRST CENTURY FOX, INC.

## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

## Hulu

The Company owns an equity interest in Hulu. In August 2016, Hulu issued a 10% equity interest to a new investor thereby diluting the Company's ownership to 30%. For a period of up to 36 months, under certain limited circumstances arising from regulatory review, the new investor may put its shares to Hulu or Hulu may call the shares from the new investor. If Hulu is required to fund the repurchase of shares from the new investor, the Company has agreed to make an additional capital contribution of up to approximately \$300 million to Hulu. As a result of these conditions, the Company will record a gain on the dilution of its ownership interest upon resolution of the contingency. The Company will continue to account for its interest in Hulu as an equity method investment.

For the nine months ended March 31, 2018, the Company invested approximately \$315 million in Hulu to maintain its ownership percentage and has committed to an additional investment of approximately \$340 million in calendar year 2018.

## NOTE 5. FAIR VALUE

In accordance with ASC 820, "Fair Value Measurement," fair value measurements are required to be disclosed using a three-tiered fair value hierarchy which distinguishes market participant assumptions into the following categories: (i) inputs that are quoted prices in active markets ("Level 1"); (ii) inputs other than quoted prices included within Level 1 that are observable, including quoted prices for similar assets or liabilities ("Level 2"); and (iii) inputs that require the entity to use its own assumptions about market participant assumptions ("Level 3").

The following tables present information about financial assets and liabilities carried at fair value on a recurring basis:

	Fair value measurements			
	As of March 31, 2018			
	Total	Level 1	Level 2	Level 3
	(in millions)			
<b>Assets</b>				
Investments <sup>(a)</sup>	\$187	\$187	\$-	\$-
Derivatives <sup>(b)</sup>	153	-	153	-
Other <sup>(c)</sup>	114	-	-	114
Redeemable noncontrolling interests	(761)	-	-	(761)
<b>Total</b>	<b>\$(307)</b>	<b>\$187</b>	<b>\$153</b>	<b>\$(647)</b>

	As of June 30, 2017			
	Total	Level 1	Level 2	Level 3



	(in millions)			
<b>Assets</b>				
Derivatives <sup>(b)</sup>	\$48	\$ -	\$ 48	\$-
Other <sup>(c)</sup>	43	-	-	43
<b>Liabilities</b>				
Derivatives <sup>(b)</sup>	(9 )	-	(9 )	-
Redeemable noncontrolling interests	(694)	-	-	(694)
<b>Total</b>	<b>\$(612)</b>	<b>\$ -</b>	<b>\$ 39</b>	<b>\$(651)</b>

<sup>(a)</sup> Represents an investment in available-for-sale securities.

<sup>(b)</sup> Represents derivatives associated with the Company's foreign currency forward and option contracts and interest rate swap contracts.

<sup>(c)</sup> Primarily relates to past acquisitions, including contingent consideration arrangements.

## TWENTY-FIRST CENTURY FOX, INC.

## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

## Redeemable Noncontrolling Interests

The Company accounts for redeemable noncontrolling interests in accordance with ASC 480-10-S99-3A, “Distinguishing Liabilities from Equity” (“ASC 480-10-S99-3A”), because their exercise is outside the control of the Company. The redeemable noncontrolling interests recorded at fair value are put arrangements held by the noncontrolling interests in certain of the Company’s majority-owned sports networks. The Company utilizes the market, income or cost approaches or a combination of these valuation techniques for its Level 3 fair value measures, using observable inputs such as market data obtained from independent sources. To the extent observable inputs are not available, the Company utilizes unobservable inputs based upon the assumptions market participants would use in valuing the asset (liability). One minority shareholder’s put right is currently exercisable. One minority shareholder’s put right will become exercisable in July 2018 and two minority shareholders’ put rights will become exercisable in March 2019. The remaining redeemable noncontrolling interests are currently not exercisable.

## Financial Instruments

The carrying value of the Company’s financial instruments, such as cash and cash equivalents, receivables, payables and cost method investments, approximates fair value.

	As of March 31, 2018 (in millions)	As of June 30, 2017
<b>Borrowings</b>		
Fair value	\$23,861	\$23,853
Carrying value	\$19,997	\$19,913

Fair value is generally determined by reference to market values resulting from trading on a national securities exchange or in an over-the-counter market (a Level 1 measurement).

## Foreign Currency Contracts

The Company uses foreign currency forward contracts primarily to hedge certain exposures to foreign currency exchange rate risks associated with revenues and the cost of producing or acquiring films and television programming. The Company also entered into a foreign currency option contract to limit its foreign currency exchange rate risk in connection with the Sky Acquisition. For accounting purposes, the option contract does not qualify for hedge accounting and therefore has been treated as an economic hedge (See Note 2 – Acquisitions, Disposals and Other Transactions under the heading “Sky Acquisition”).

	As of	As of
	March	June
	31,	30,
	2018	2017
	(in millions)	
<b>Cash Flow Hedges</b>		
Notional amount	\$ 107	\$ 209
Fair value	\$ 2	\$ -

## TWENTY-FIRST CENTURY FOX, INC.

## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

For foreign currency forward contracts designated as cash flow hedges, the Company expects to reclassify the cumulative changes in fair values, included in Accumulated other comprehensive loss, within the next year.

	As of March 31, 2018 (in millions)	As of June 30, 2017 (in millions)
<b>Economic Hedges</b>		
Notional amount <sup>(a)</sup>	\$12,794	\$12,371
Fair value <sup>(a)</sup>	\$143	\$38

<sup>(a)</sup>Includes the foreign currency option contract to limit the foreign currency exchange rate risk in connection with the Sky Acquisition. The foreign currency option contract has a notional amount of \$12.8 billion and consists of the foreign currency option and a premium payable of approximately \$400 million due on the option expiration date. As of March 31, 2018, the foreign currency option had a fair value of \$143 million.

**Interest Rate Swap Contracts**

The Company uses interest rate swap contracts to hedge certain exposures to interest rate risks associated with certain borrowings.

	As of March 31, 2018 (in millions)	As of June 30, 2017 (in millions)
<b>Cash Flow Hedges</b>		
Notional amount	\$621	\$663
Fair value	\$8	\$1

For interest rate swap contracts designated as cash flow hedges, the Company expects to reclassify the cumulative changes in fair values, included in Accumulated other comprehensive loss, within the next two years.

#### Concentrations of Credit Risk

Cash and cash equivalents are maintained with several financial institutions. The Company has deposits held with banks that exceed the amount of insurance provided on such deposits. Generally, these deposits may be redeemed upon demand and are maintained with financial institutions of reputable credit and, therefore, bear minimal credit risk.

The Company's receivables did not represent significant concentrations of credit risk as of March 31, 2018 or June 30, 2017 due to the wide variety of customers, markets and geographic areas to which the Company's products and services are sold.

The Company monitors its positions with, and the credit quality of, the financial institutions which are counterparties to its financial instruments. The Company is exposed to credit loss in the event of nonperformance by the counterparties to the agreements. As of March 31, 2018, the Company did not anticipate nonperformance by any of the counterparties.

#### NOTE 6. BORROWINGS

Borrowings include bank loans and public debt.

##### Bank Loans

In December 2017, the Yankees Entertainment and Sports Network (the "YES Network") amended its credit agreement to decrease the total size of its credit facility from approximately \$1.8 billion to \$1.6 billion. The credit facility is comprised of a \$1.1 billion term loan facility and a \$500 million secured revolving credit facility. The amendment also extended the maturity date of the credit agreement to December 2023. As of March 31, 2018, the outstanding balances on the term loan facility and revolving credit facility were approximately \$1.1 billion and \$130 million, respectively. The YES Network pays a commitment fee (currently 0.275%) on undrawn funds that is determined by the total leverage ratio.

## TWENTY-FIRST CENTURY FOX, INC.

## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

In March 2018, STAR India (“STAR”) entered into a term loan agreement (the “STAR Term Loan”) among STAR as borrower, the Company as parent guarantor, JPMorgan Chase Bank, N.A. as original lender and IDBI Trusteeship Services Limited as agent. The term loan agreement is comprised of an Indian rupee (“INR”) 5 billion (approximately \$77 million) unsecured term loan facility with a maturity date of March 2021. The term loan facility bears interest at the Financial Benchmarks India Pvt. Ltd. Treasury Bills rate for three month terms plus a margin. The term loan facility is callable and may be redeemed, in whole or in part, every three months. Borrowings under the term loan facility are available for acquiring programming rights.

In addition to the STAR Term Loan, STAR has entered into various unsecured credit facilities (the “STAR Credit Facilities”) that are available for working capital and for acquiring programming rights. These credit facilities are uncommitted and are reviewed periodically for renewal. The credit facilities have a total capacity for borrowings of INR 13.7 billion (approximately \$210 million). As of March 31, 2018, the outstanding balance on the credit facilities was \$130 million. Borrowings under the credit facilities are due on demand by the lenders providing up to 60 days’ notice. Borrowings with on demand repayment terms are presented as Current borrowings in the Consolidated Balance Sheets.

## Current Borrowings

Included in Borrowings within Current liabilities as of March 31, 2018 was \$350 million of 7.25% Senior Notes that are due in May 2018, \$250 million of 8.25% Senior Notes that are due in August 2018, \$700 million of 6.90% Senior Notes that are due in March 2019, principal payments on the YES Network term loan facility of \$31 million that are due in the next 12 months, \$77 million related to the STAR Term Loan and \$130 million related to the STAR Credit Facilities.

## Bridge Credit Agreement

See Note 2 – Acquisitions, Disposals and Other Transactions under the heading “Sky Acquisition”.

## NOTE 7. STOCKHOLDERS’ EQUITY

The following tables summarize changes in stockholders’ equity:

	For the three months ended March 31, 2018			For the nine months ended March 31, 2018		
	Fox stockholders (in millions)	Noncontrolling interests	Total equity	Fox stockholders	Noncontrolling interests	Total equity
Balance, beginning of period	\$18,389	\$ 1,242	\$19,631	\$15,722	\$ 1,216	\$16,938
Net income	858	34	(a) 892	3,544	107	(a) 3,651
Other comprehensive (loss) income	(50 )	9	(41 )	319	22	341
Issuance of shares	1	-	1	42	-	42

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Dividends declared	(334 )	-	(334 )	(667 )	-	(667 )
Other	107	(33 )	(b) 74	11	(93 )	(b) (82 )
Balance, end of period	\$18,971	\$ 1,252	\$20,223	\$18,971	\$ 1,252	\$20,223

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## TWENTY-FIRST CENTURY FOX, INC.

## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

	For the three months ended March 31, 2017			For the nine months ended March 31, 2017		
	Twenty-First Century			Twenty-First Century		
	Fox stockholders' interests	Noncontrolling interests	Total equity	Fox stockholders' interests	Noncontrolling interests	Total equity
	(in millions)					
Balance, beginning of period	\$14,340	\$ 1,215	\$15,555	\$13,661	\$ 1,220	\$14,881
Net income	799	28	(a) 827	2,476	105	(a) 2,581
Other comprehensive income (loss)	187	4	191	(51 )	(16 )	(67 )
Issuance (cancellation) of shares, net	1	-	1	(527 )	-	(527 )
Dividends declared	(333 )	-	(333 )	(668 )	-	(668 )
Other	23	(12 )	(b) 11	126	(74 )	(b) 52
	-					
Balance, end of period	\$15,017	\$ 1,235	\$16,252	\$15,017	\$ 1,235	\$16,252

(a) Net income attributable to noncontrolling interests excludes \$51 million and \$43 million for the three months ended March 31, 2018 and 2017, respectively, and \$128 million and \$113 million for the nine months ended March 31, 2018 and 2017, respectively, relating to redeemable noncontrolling interests which are reflected in temporary equity.

(b) Other activity attributable to noncontrolling interests excludes \$(2) million for the three months ended March 31, 2018 and 2017, and \$(61) million and \$(46) million for the nine months ended March 31, 2018 and 2017, respectively, relating to redeemable noncontrolling interests.

## Comprehensive Income

Comprehensive income is reported in the Unaudited Consolidated Statements of Comprehensive Income and consists of Net income and Other comprehensive income (loss), including foreign currency translation adjustments, gains (losses) on cash flow hedges, unrealized holding gains and losses on securities, benefit plan adjustments and the Company's share of other comprehensive income (loss) of equity method investees, which affect stockholders' equity, and under GAAP, are excluded from Net income.



## TWENTY-FIRST CENTURY FOX, INC.

## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The following tables summarize the activity within Other comprehensive income (loss):

	For the three months ended March 31, 2018			For the nine months ended March 31, 2018		
	Tax			Tax		
	(provision)			(provision)		
	Before tax benefit (in millions)	Net of tax	Before tax benefit	Net of tax	Before tax benefit	Net of tax
Foreign currency translation adjustments						
Unrealized gains	\$21	\$ -	\$ 21	\$100	\$ -	\$ 100
Other comprehensive income	\$21	\$ -	\$ 21	\$100	\$ -	\$ 100
Cash flow hedges						
Unrealized gains	\$7	\$ (2 )	\$ 5	\$16	\$ (5 )	\$ 11
Reclassifications realized in net income <sup>(a)</sup>	(2 )	-	(2 )	(13 )	4	(9 )
Other comprehensive income	\$5	\$ (2 )	\$ 3	\$3	\$ (1 )	\$ 2
(Losses) gains on securities						
Unrealized (losses) gains	\$(122)	\$ 28	\$ (94 )	\$161	\$ (76 )	\$ 85
Other comprehensive (loss) income	\$(122)	\$ 28	\$ (94 )	\$161	\$ (76 )	\$ 85
Benefit plan adjustments						
Unrealized losses <sup>(b)</sup>	\$(9 )	\$ 2	\$ (7 )	\$(9 )	\$ 2	\$ (7 )
Reclassification adjustments realized in net income <sup>(c)</sup>	14	(3 )	11	120	(42 )	78
Other comprehensive income	\$5	\$ (1 )	\$ 4	\$111	\$ (40 )	\$ 71
Equity method investments						
Unrealized gains and reclassifications	\$45	\$ (20 )	\$ 25	\$129	\$ (46 )	\$ 83
Other comprehensive income	\$45	\$ (20 )	\$ 25	\$129	\$ (46 )	\$ 83

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## TWENTY-FIRST CENTURY FOX, INC.

## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

	For the three months ended March 31, 2017			For the nine months ended March 31, 2017		
	Tax			Tax		
	(provision)			(provision)		
	Before tax	Benefit	Net of tax	Before tax	Benefit	Net of tax
	(in millions)					
Foreign currency translation adjustments						
Unrealized gains (losses)	\$111	\$ -	\$ 111	\$(40)	\$ -	\$ (40)
Other comprehensive income (loss)	\$111	\$ -	\$ 111	\$(40)	\$ -	\$ (40)
Cash flow hedges						
Unrealized gains	\$1	\$ -	\$ 1	\$14	\$ (5)	\$ 9
Reclassifications realized in net income <sup>(a)</sup>	9	(4)	5	16	(6)	10
Other comprehensive income	\$10	\$ (4)	\$ 6	\$30	\$ (11)	\$ 19
Benefit plan adjustments						
Unrealized gains <sup>(b)</sup>	\$104	\$ (38)	\$ 66	\$104	\$ (38)	\$ 66
Reclassification adjustments realized in net income <sup>(c)</sup>	13	(5)	8	81	(30)	51
Other comprehensive income	\$117	\$ (43)	\$ 74	\$185	\$ (68)	\$ 117
Equity method investments						
Unrealized gains (losses) and reclassifications	\$5	\$ (5)	\$ -	\$(218)	\$ 55	\$ (163)
Other comprehensive income (loss)	\$5	\$ (5)	\$ -	\$(218)	\$ 55	\$ (163)

<sup>(a)</sup> Reclassifications of amounts related to hedging activity are included in Revenues, Operating expenses, Selling, general and administrative expenses, Interest expense, net or Other, net, as appropriate, in the Unaudited Consolidated Statements of Operations (See Note 5 – Fair Value for additional information regarding hedging activity).

<sup>(b)</sup> For the three and nine months ended March 31, 2018 and 2017, the Company recorded a net unrealized actuarial (loss) gain from the remeasurement of its pension plan.

<sup>(c)</sup> Reclassifications of amounts related to benefit plan adjustments are included in Other, net in the Unaudited Consolidated Statements of Operations.

## Earnings Per Share Data

The following table sets forth the Company's computation of Income from continuing operations attributable to Twenty-First Century Fox stockholders:

	For the three months ended			
	Fourth quarter		Third quarter	
	March 31, 2018	March 31, 2017	March 31, 2018	March 31, 2017
	(in millions)			
Income from continuing operations	\$961	\$882	\$ 3,786	\$ 2,713
Less: Net income attributable to noncontrolling interests	(85)	(71)	(235)	(218)
Income from continuing operations attributable to Twenty-First Century Fox stockholders	\$876	\$811	\$ 3,551	\$ 2,495

#### Stock Repurchase Program

The Board authorized a stock repurchase program, under which the Company is authorized to acquire Class A Common Stock. As of March 31, 2018, the Company's remaining buyback authorization was approximately \$3.1 billion representing approximately \$3 billion under the fiscal 2017 authorization and approximately \$110 million under the fiscal 2016 authorization. Pursuant to the Merger Agreement (See Note 2 – Acquisitions, Disposals and Other Transactions under the heading “Disney Transaction/Distribution of New Fox”), the Company is required to obtain Disney's consent prior to repurchasing any additional shares.

## TWENTY-FIRST CENTURY FOX, INC.

## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The Company did not repurchase any of its Class A Common Stock or Class B Common Stock during the nine months ended March 31, 2018.

## Dividends

The following table summarizes the dividends declared per share on both the Company's Class A Common Stock and the Class B Common Stock:

	For the three months ended		For the nine months ended	
	March 31, 2018	2017	March 31, 2018	2017
Cash dividend per share	\$ 0.18	\$ 0.18	\$ 0.36	\$ 0.36

The Company declared a dividend of \$0.18 per share on both the Class A Common Stock and Class B Common Stock in the three months ended March 31, 2018, which was paid in April 2018 to the stockholders on record as of March 14, 2018.

## NOTE 8. EQUITY-BASED COMPENSATION

The following table summarizes the Company's equity-based compensation activity:

	For the three months ended			
	March 31, 2018	March 31, 2017	March 31, 2018	March 31, 2017
	(in millions)			
Equity-based compensation	\$ 118	\$ 35	\$ 184	\$ 97
Intrinsic value of all settled equity-based awards	\$ -	\$ 1	\$ 74	\$ 70
Tax benefit on vested equity-based awards	\$ -	\$ -	\$ 24	\$ 25

As of March 31, 2018, the Company's total estimated compensation cost related to equity-based awards, not yet recognized, was approximately \$370 million, and is expected to be recognized over a weighted average period between one and two years. Compensation expense on all equity-based awards is generally recognized on a straight-line basis over the vesting period of the entire award.

## Performance Stock Units

The Company's stock based awards are granted in Class A Common Stock. During the nine months ended March 31, 2018, approximately 6.8 million performance stock units ("PSUs") were granted and approximately 2.6 million PSUs vested.

During the nine months ended March 31, 2017, approximately 7.4 million PSUs were granted and approximately 2.6 million PSUs vested.

In February 2018, the Compensation Committee determined that, upon vesting, the outstanding PSU awards for the fiscal 2016-2018 performance period granted to all participants in the PSU award program, including the Company's named executive officers, will be paid out based on the target number of PSUs awarded in accordance with the original vesting schedule. As of March 31, 2018, there were approximately 5.0 million PSUs outstanding for the 2016-2018 performance period.

#### Retention Awards

In February 2018, the Compensation Committee made a special grant of approximately 5.8 million restricted stock units ("Retention RSUs") to certain of the Company's senior executives, including named executive officers. The Retention RSU grants will vest 50% at the time of the Initial Merger and 50% on the 15-month anniversary of the Initial Merger, subject to each executive's continued employment through the applicable vesting date. The Retention RSU grants will be subject to accelerated vesting upon the occurrence of certain termination events.

TWENTY-FIRST CENTURY FOX, INC.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9. COMMITMENTS AND CONTINGENCIES

Commitments

The Company has commitments under certain firm contractual arrangements (“firm commitments”) to make future payments. These firm commitments secure the future rights to various assets and services to be used in the normal course of operations. The total firm commitments and future debt payments as of March 31, 2018 and June 30, 2017 were approximately \$84 billion and \$82 billion, respectively. The increase from June 30, 2017 was primarily due to the expanded agreement with the National Football League to include broadcast rights for the next five seasons of Thursday Night Football beginning with the 2018 season and a new agreement for the Indian Premier League's (“IPL”) Global Media and Digital cricket broadcast rights for the five-year period from 2018 to 2022 partially offset by payments related to sports programming rights.

In April 2018, the Company expanded its agreement for the global media rights for the Board of Control for Cricket in India’s (“BCCI”) domestic and international cricket matches through 2023.

Contingent Guarantees

The Company’s contingent guarantees as of March 31, 2018 and June 30, 2017 were approximately \$1 billion and \$500 million, respectively. The increase from June 30, 2017 was primarily due to a bank guarantee covering the Company’s new IPL programming rights obligations.

The commitments and contingent guarantees above do not include obligations and commitments related to the Disney Transaction and the Sky Acquisition (See Note 2 – Acquisitions, Disposals and Other Transactions under the headings “Disney Transaction/Distribution of New Fox” and “Sky Acquisition”).

Hulu

The Company has guaranteed \$113 million of Hulu’s \$338 million five-year term loan due in August 2022 which is included in the contingent guarantees above. The fair value of this guarantee was calculated using Level 3 inputs and was included in the Consolidated Balance Sheets in Other liabilities.

In addition to the contingent guarantees mentioned above, the Company is party to capital funding agreements related to Hulu (See Note 4 – Investments under the heading “Hulu”).

Contingencies

Fox News Channel

The Company and certain of its current and former employees have been subject to allegations of sexual harassment and discrimination and racial discrimination relating to alleged misconduct at the Company’s Fox News Channel business. The Company has settled some of these claims and is contesting other claims in litigation. The Company has also received regulatory and investigative inquiries relating to these matters. To date, none of the amounts paid in settlements or reserved for pending or future claims, is individually or in the aggregate, material to the Company. The amount of liability, if any, that may result from these or related matters cannot be estimated at this time. However, the

Company does not currently anticipate that the ultimate resolution of any such pending matters will have a material adverse effect on its consolidated financial condition, future results of operations or liquidity.

#### Shareholder Litigation

On November 20, 2017, a stockholder of the Company filed a derivative action in the Court of Chancery of the State of Delaware captioned City of Monroe Employees' Retirement System v. Rupert Murdoch, et al., C.A. No. 2017-0833-AGB. The lawsuit named as defendants all directors of the Company and the Estate of Roger Ailes (the "Ailes Estate"), and named the Company as a nominal defendant. The plaintiff alleged that the directors of the Company and Rupert Murdoch as a purported controlling stockholder breached their fiduciary duties by, among other things, failing to properly oversee the work environment at Fox News. The plaintiff also brought claims of breach of fiduciary duty and unjust enrichment against the Ailes Estate.

On November 20, 2017, the parties reached an agreement to settle the lawsuit and filed a Stipulation and Agreement of Settlement, Compromise, and Release with the Court (the "Settlement Agreement"). Pursuant to the terms of the Settlement Agreement, the parties agreed that the director defendants and the Ailes Estate would cause their

TWENTY-FIRST CENTURY FOX, INC.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

insurers to make a payment in the amount of \$90 million to the Company, less approximately \$22 million of attorneys' fees and expenses awarded by the Court to the plaintiff's counsel. Such amount was paid pursuant to an agreement reached between the defendants and their directors' and officers' liability insurers for the payment of insurance proceeds, subject to a claims release. In addition to the payment to the Company, the Settlement Agreement provides that the Company shall put in place governance and compliance enhancements, including the creation of the Fox News Workplace Professionalism and Inclusion Council, as set forth in the Non-Monetary Relief Agreement agreed to by the parties in connection with the Settlement Agreement. These governance and compliance enhancements, which the Company has implemented, shall remain in effect for five years. No stockholder objected to either the settlement or the proposed fee award at the settlement hearing on February 9, 2018. The Court approved the settlement and entered a final order and judgment on February 9, 2018. Accordingly, the Company received a cash payment and recorded the net settlement of \$68 million in Other, net in the Unaudited Consolidated Statements of Operations for three and nine months ended March 31, 2018.

U.K. Newspaper Matters Indemnity

In connection with the Separation (as defined in Note 4 – Discontinued Operations in the 2017 Form 10-K under the heading “Separation of News Corp”), the Company and News Corporation (“News Corp”) agreed in the Separation and Distribution Agreement that the Company will indemnify News Corp, on an after-tax basis, for payments made after the Separation arising out of civil claims and investigations relating to phone hacking, illegal data access and inappropriate payments to public officials that occurred at subsidiaries of News Corp, as well as legal and professional fees and expenses paid in connection with the related criminal matters, other than fees, expenses and costs relating to employees who are not (i) directors, officers or certain designated employees or (ii) with respect to civil matters, co-defendants with News Corp (the “Indemnity”). The liability related to the Indemnity, recorded in the Consolidated Balance Sheets, was approximately \$60 million and \$80 million as of March 31, 2018 and June 30, 2017, respectively.

Other

Equity purchase arrangements that are exercisable by the counterparty to the agreement, and that are outside the sole control of the Company, are accounted for in accordance with ASC 480-10-S99-3A and are classified as Redeemable noncontrolling interests in the Consolidated Balance Sheets. Other than the arrangements classified as Redeemable noncontrolling interests, the Company is also a party to several other purchase and sale arrangements which become exercisable at various points in time. However, these arrangements are currently either not exercisable in the next twelve months or are not material.

The Company establishes an accrued liability for legal claims when the Company determines that a loss is both probable and the amount of the loss can be reasonably estimated. Once established, accruals are adjusted from time to time, as appropriate, in light of additional information. The amount of any loss ultimately incurred in relation to matters for which an accrual has been established may be higher or lower than the amounts accrued for such matters. Any fees, expenses, fines, penalties, judgments or settlements which might be incurred by the Company in connection with the various proceedings could affect the Company's results of operations and financial condition. For the contingencies disclosed above for which there is at least a reasonable possibility that a loss may be incurred, other than the accrual provided, the Company was unable to estimate the amount of loss or range of loss.

The Company's operations are subject to tax in various domestic and international jurisdictions and as a matter of course, the Company is regularly audited by federal, state and foreign tax authorities. The Company believes it has



appropriately accrued for the expected outcome of all pending tax matters and does not currently anticipate that the ultimate resolution of pending tax matters will have a material adverse effect on its consolidated financial condition, future results of operations or liquidity.

TWENTY-FIRST CENTURY FOX, INC.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10. SEGMENT INFORMATION

The Company is a diversified global media and entertainment company, which manages and reports its businesses in the following four segments:

• Cable Network Programming, which principally consists of the production and licensing of programming distributed primarily through cable television systems, direct broadcast satellite operators, telecommunication companies and online video distributors in the U.S. and internationally.

• Television, which principally consists of the broadcasting of network programming in the U.S. and the operation of 28 full power broadcast television stations, including 11 duopolies, in the U.S. (of these stations, 17 are affiliated with FOX, nine are affiliated with MyNetworkTV, one is affiliated with both The CW Television Network and MyNetworkTV and one is an independent station).

• Filmed Entertainment, which principally consists of the production and acquisition of live-action and animated motion pictures for distribution and licensing in all formats in all entertainment media worldwide, and the production and licensing of television programming worldwide.

- Other, Corporate and Eliminations, which principally consists of corporate overhead and eliminations.

The Company's operating segments have been determined in accordance with the Company's internal management structure, which is organized based on operating activities. The Company evaluates performance based upon several factors, of which the primary financial measure is Segment OIBDA. Due to the integrated nature of these operating segments, estimates and judgments are made in allocating certain assets, revenues and expenses.

Segment OIBDA is defined as Revenues less Operating expenses and Selling, general and administrative expenses. Segment OIBDA does not include: Amortization of cable distribution investments, Depreciation and amortization, Impairment and restructuring charges, Equity losses of affiliates, Interest expense, net, Interest income, Other, net, Income tax (expense) benefit, Loss from discontinued operations, net of tax and Net income attributable to noncontrolling interests. Management believes that Segment OIBDA is an appropriate measure for evaluating the operating performance of the Company's business segments because it is the primary measure used by the Company's chief operating decision maker to evaluate the performance of and allocate resources to the Company's businesses.

Management believes that information about Total Segment OIBDA assists all users of the Company's Unaudited Consolidated Financial Statements by allowing them to evaluate changes in the operating results of the Company's portfolio of businesses separate from non-operational factors that affect net income, thus providing insight into both operations and the other factors that affect reported results. Total Segment OIBDA provides management, investors and equity analysts a measure to analyze the operating performance of the Company's business and its enterprise value against historical data and competitors' data, although historical results, including Segment OIBDA and Total Segment OIBDA, may not be indicative of future results (as operating performance is highly contingent on many factors, including customer tastes and preferences).

Total Segment OIBDA may be considered a non-GAAP measure and should be considered in addition to, not as a substitute for, net income, cash flow and other measures of financial performance reported in accordance with GAAP. In addition, this measure does not reflect cash available to fund requirements and excludes items, such as depreciation and amortization and impairment charges, which are significant components in assessing the Company's financial performance.



## TWENTY-FIRST CENTURY FOX, INC.

## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The following table reconciles Income from continuing operations before income tax (expense) benefit to Total Segment OIBDA for the three and nine months ended March 31, 2018 and 2017:

	For the three months ended			
	For the		For the	
	March 31,	March 31,	March 31,	March 31,
	2018	2017	2018	2017
	(in millions)			
Income from continuing operations before income tax (expense) benefit	\$1,331	\$1,252	\$ 3,329	\$ 3,874
Add				
Amortization of cable distribution investments	14	15	57	46
Depreciation and amortization	145	140	429	410
Impairment and restructuring charges	34	37	58	213
Equity losses of affiliates	86	51	59	57
Interest expense, net	311	310	936	909
Interest income	(10 )	(9 )	(29 )	(27 )
Other, net	(17 )	142	284	241
Total Segment OIBDA	\$1,894	\$1,938	\$ 5,123	\$ 5,723

The following tables set forth the Company's Revenues and Segment OIBDA for the three and nine months ended March 31, 2018 and 2017:

	For the three months ended			
	For the		For the	
	March 31,	March 31,	March 31,	March 31,
	2018	2017	2018	2017
	(in millions)			
<b>Revenues</b>				
Cable Network Programming	\$4,419	\$4,024	\$ 13,020	\$ 11,801
Television	1,149	1,690	4,020	4,646
Filmed Entertainment	2,243	2,256	6,452	6,432
Other, Corporate and Eliminations	(391 )	(406 )	(1,033 )	(1,127 )
Total revenues	\$7,420	\$7,564	\$ 22,459	\$ 21,752
<b>Segment OIBDA</b>				
Cable Network Programming	\$1,684	\$1,446	\$ 4,560	\$ 4,160
Television	78	190	256	757
Filmed Entertainment	286	373	673	1,073
Other, Corporate and Eliminations	(154 )	(71 )	(366 )	(267 )

Total Segment OIBDA	\$1,894	\$1,938	\$ 5,123	\$ 5,723
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## TWENTY-FIRST CENTURY FOX, INC.

## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Intersegment revenues, generated by the Filmed Entertainment segment, of \$372 million and \$407 million for the three months ended March 31, 2018 and 2017, respectively, and of \$985 million and \$1,085 million for the nine months ended March 31, 2018 and 2017, respectively, have been eliminated within the Other, Corporate and Eliminations segment.

	For the three months ended			
	March 31, 2018	March 31, 2017	March 31, 2018	March 31, 2017
	(in millions)			
<b>Depreciation and amortization</b>				
Cable Network Programming	\$89	\$87	\$ 260	\$ 252
Television	27	28	81	85
Filmed Entertainment	21	19	67	59
Other, Corporate and Eliminations	8	6	21	14
Total depreciation and amortization	\$ 145	\$ 140	\$ 429	\$ 410

Depreciation and amortization includes the amortization of definite lived intangible assets of \$63 million and \$62 million for the three months ended March 31, 2018 and 2017, respectively, and \$193 million and \$192 million for the nine months ended March 31, 2018 and 2017, respectively.

	As of	As of
	March 31,	June 30,
	2018	2017
	(in millions)	
<b>Assets</b>		
Cable Network Programming	\$26,070	\$24,913
Television	6,765	6,775
Filmed Entertainment	11,263	10,312
Other, Corporate and Eliminations	5,624	4,822
Investments	4,256	3,902
Total assets	\$53,978	\$50,724

## Revenues by Component

For the three months ended

	March 31, 2018	March 31, 2017	For the nine months ended March 31, 2018	For the nine months ended March 31, 2017
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	(in millions)			
Revenues				
Affiliate fee	\$3,507	\$3,160	\$ 9,995	\$ 8,989
Advertising	1,642	2,203	5,761	6,338
Content	2,148	2,078	6,307	5,979
Other	123	123	396	446
Total revenues	\$7,420	\$7,564	\$ 22,459	\$ 21,752

## NOTE 11. ADDITIONAL FINANCIAL INFORMATION

## Impairment and restructuring charges

Impairment and restructuring charges were \$34 million and \$37 million for the three months ended March 31, 2018 and 2017, respectively, and \$58 million and \$213 million for the nine months ended March 31, 2018 and 2017, respectively. The impairment and restructuring charges for the three and nine months ended March 31, 2017 were primarily comprised of costs in connection with management and employee transitions and restructuring at several of the Company's business units.

## TWENTY-FIRST CENTURY FOX, INC.

## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

## Other, net

The following table sets forth the components of Other, net included in the Unaudited Consolidated Statements of Operations:

	For the three months ended			
	Both the nine months ended		Both the nine months ended	
	March 31, 2018	March 31, 2017	March 31, 2018	March 31, 2017
	(in millions)			
Sky Acquisition related and other transaction costs <sup>(a)</sup>	\$ 13	\$(137)	\$ (126 )	\$ (170 )
Disney Transaction costs <sup>(b)</sup>	(33)	-	(65 )	-
Settlement loss on pension liabilities <sup>(c)</sup>	(4 )	-	(90 )	(40 )
Shareholder litigation settlement <sup>(d)</sup>	68	-	68	-
Other <sup>(e)</sup>	(27)	(5 )	(71 )	(31 )
Total other, net	\$ 17	\$(142)	\$ (284 )	\$ (241 )

<sup>(a)</sup>The Sky Acquisition related and other transaction costs primarily represent the change in fair value of a foreign currency option contract to limit the foreign currency exchange rate risk in connection with the Sky Acquisition (See Note 2 – Acquisitions, Disposals and Other Transactions under the heading “Sky Acquisition” for further discussion).

<sup>(b)</sup>See Note 2 – Acquisitions, Disposals and Other Transactions under the heading “Disney Transaction/Distribution of New Fox” for further discussion.

<sup>(c)</sup>During the three and nine months ended March 31, 2018, the Company settled a portion of its pension obligations by irrevocably transferring pension liabilities to an insurance company through the purchase of a group annuity contract and through lump sum distributions. These payments, funded with pension plan assets, resulted in pre-tax settlement losses related to the recognition of accumulated deferred actuarial losses. During the nine months ended March 31, 2017, the Company settled a portion of its pension obligations through lump sum distributions, which resulted in a pre-tax settlement loss related to the recognition of accumulated deferred actuarial losses.

<sup>(d)</sup> See Note 9 – Commitments and Contingencies under the heading “Shareholder Litigation” for further discussion.

<sup>(e)</sup>Other for the three and nine months ended March 31, 2017 included approximately \$10 million and \$45 million, respectively, of costs related to settlements of claims arising out of allegations of sexual harassment at the Company’s Fox News Channel business.

## Receivables, net

Receivables are presented net of an allowance for returns and doubtful accounts, which is an estimate of amounts that may not be collectible. Allowances for returns and doubtful accounts as of March 31, 2018 and June 30, 2017 were \$446 million and \$537 million, respectively.

## Income Taxes



During the fourth quarter of fiscal 2018, the Company expects to recognize a tax benefit of approximately \$130 million related to the completion of the U.S. federal tax audits for fiscal years 2009 through 2013.

Supplemental Cash Flows Information

	For the nine months ended	
	March 31, 2018	2017
	(in millions)	
Supplemental cash flows information		
Cash paid for income taxes	\$ (759 )	\$ (747 )
Cash paid for interest	\$ (901 )	\$ (890 )

TWENTY-FIRST CENTURY FOX, INC.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12. SUPPLEMENTAL GUARANTOR INFORMATION

The Parent Guarantor presently guarantees the senior public indebtedness of 21CFA and the guarantee is full and unconditional. The supplemental condensed consolidating financial information of the Parent Guarantor should be read in conjunction with these Unaudited Consolidated Financial Statements.

In accordance with rules and regulations of the SEC, the Company uses the equity method to account for the results of all of the non-guarantor subsidiaries, representing substantially all of the Company's consolidated results of operations, excluding certain intercompany eliminations.

The following condensed consolidating financial statements present the results of operations, financial position and cash flows of 21CFA, the Company and the subsidiaries of the Company and the eliminations and reclassifications necessary to arrive at the information for the Company on a consolidated basis.

## TWENTY-FIRST CENTURY FOX, INC.

## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

## Supplemental Condensed Consolidating Statement of Operations

For the three months ended March 31, 2018

(in millions)

	21st Century Fox America, Inc.		Twenty-First Century Fox Non-Guaranteed		Reclassification and Eliminations	Twenty-First Century Fox and Subsidiaries
Revenues	\$ 1	\$ -	\$ 7,419	\$ -	\$ -	\$ 7,420
Expenses	(111 )	-	(5,608 )	-	(5,719 )	(5,719 )
Equity losses of affiliates	(2 )	-	(84 )	-	(86 )	(86 )
Interest expense, net	(446 )	(202 )	(21 )	358	(311 )	(311 )
Interest income	1	4	363	(358 )	10	10
Earnings from subsidiary entities	1,633	1,074	-	(2,707 )	-	-
Other, net	38	-	(21 )	-	17	17
Income from continuing operations before income tax expense	1,114	876	2,048	(2,707 )	1,331	1,331
Income tax expense	(822 )	-	(731 )	1,183	(370 )	(370 )
Income from continuing operations	292	876	1,317	(1,524 )	961	961
Loss from discontinued operations, net of tax	-	(18 )	-	-	(18 )	(18 )
Net income	292	858	1,317	(1,524 )	943	943
Less: Net income attributable to noncontrolling interests	-	-	(85 )	-	(85 )	(85 )
Net income attributable to Twenty-First Century Fox stockholders	\$ 292	\$ 858	\$ 1,232	\$ (1,524 )	\$ 858	\$ 858
Comprehensive income attributable to Twenty-First Century Fox stockholders	\$ 260	\$ 808	\$ 1,259	\$ (1,519 )	\$ 808	\$ 808

See notes to supplemental guarantor information

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## TWENTY-FIRST CENTURY FOX, INC.

## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

## Supplemental Condensed Consolidating Statement of Operations

For the three months ended March 31, 2017

(in millions)

	21st Century Fox America, Inc.		Twenty-First Century Fox Non-Guaranteed		Reclassification and Eliminations	Twenty-First Century Fox and Subsidiaries
Revenues	\$ 1	\$ -	\$ 7,563	\$ -	\$ -	\$ 7,564
Expenses	(90 )	-	(5,728 )	-	-	(5,818 )
Equity losses of affiliates	-	-	(51 )	-	-	(51 )
Interest expense, net	(423 )	(195 )	(19 )	327	-	(310 )
Interest income	1	3	332	(327 )	9	
Earnings from subsidiary entities	1,883	1,002	-	(2,885 )	-	
Other, net	(140 )	1	(3 )	-	-	(142 )
Income from continuing operations before income tax expense	1,232	811	2,094	(2,885 )	-	1,252
Income tax expense	(365 )	-	(620 )	615	-	(370 )
Income from continuing operations	867	811	1,474	(2,270 )	-	882
Loss from discontinued operations, net of tax	-	(12 )	-	-	-	(12 )
Net income	867	799	1,474	(2,270 )	-	870
Less: Net income attributable to noncontrolling interests	-	-	(71 )	-	-	(71 )
Net income attributable to Twenty-First Century Fox stockholders	\$ 867	\$ 799	\$ 1,403	\$ (2,270 )	-	\$ 799
Comprehensive income attributable to Twenty-First Century Fox stockholders	\$ 1,005	\$ 986	\$ 1,578	\$ (2,583 )	-	\$ 986

See notes to supplemental guarantor information

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## TWENTY-FIRST CENTURY FOX, INC.

## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

## Supplemental Condensed Consolidating Statement of Operations

For the nine months ended March 31, 2018

(in millions)

	21st Century Fox America, Inc.		Twenty-First Century Fox		Reclassifications and Eliminations	Twenty-First Century Fox and Subsidiaries
Revenues	\$ 1	\$ -	\$ 22,458	\$ -	\$ -	\$ 22,459
Expenses	(287 )	-	(17,593 )	-	-	(17,880 )
Equity losses of affiliates	(2 )	-	(57 )	-	-	(59 )
Interest expense, net	(1,312 )	(612 )	(63 )	1,051	-	(936 )
Interest income	1	14	1,065	(1,051 )	-	29
Earnings from subsidiary entities	6,417	4,149	-	(10,566 )	-	-
Other, net	(181 )	-	(103 )	-	-	(284 )
Income from continuing operations before income tax benefit	4,637	3,551	5,707	(10,566 )	-	3,329
Income tax benefit	637	-	784	(964 )	-	457
Income from continuing operations	5,274	3,551	6,491	(11,530 )	-	3,786
Loss from discontinued operations, net of tax	-	(7 )	-	-	-	(7 )
Net income	5,274	3,544	6,491	(11,530 )	-	3,779
Less: Net income attributable to noncontrolling interests	-	-	(235 )	-	-	(235 )
Net income attributable to Twenty-First Century Fox stockholders	\$ 5,274	\$ 3,544	\$ 6,256	\$ (11,530 )	-	\$ 3,544
Comprehensive income attributable to Twenty-First Century Fox stockholders	\$ 5,260	\$ 3,863	\$ 6,420	\$ (11,680 )	-	\$ 3,863

See notes to supplemental guarantor information

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## TWENTY-FIRST CENTURY FOX, INC.

## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

## Supplemental Condensed Consolidating Statement of Operations

For the nine months ended March 31, 2017

(in millions)

	21st Century Fox America, Inc.		Twenty-First Century Fox		Non-Guarantor	Reclassification and Eliminations	Century Fox and Subsidiaries
Revenues	\$ 1	\$ -	\$ 21,751	\$ -	\$ -	\$ 21,752	
Expenses	(328 )	-	(16,370 )	-	(16,698 )		
Equity losses of affiliates	(1 )	-	(56 )	-	(57 )		
Interest expense, net	(1,246 )	(572 )	(58 )	967	(909 )		
Interest income	3	4	987	(967 )	27		
Earnings from subsidiary entities	5,358	3,062	-	(8,420 )	-		
Other, net	(226 )	1	(16 )	-	(241 )		
Income from continuing operations before income tax expense	3,561	2,495	6,238	(8,420 )	3,874		
Income tax expense	(1,067 )	-	(1,870 )	1,776	(1,161 )		
Income from continuing operations	2,494	2,495	4,368	(6,644 )	2,713		
Loss from discontinued operations, net of tax	-	(19 )	-	-	(19 )		
Net income	2,494	2,476	4,368	(6,644 )	2,694		
Less: Net income attributable to noncontrolling interests	-	-	(218 )	-	(218 )		
Net income attributable to Twenty-First Century Fox stockholders	\$ 2,494	\$ 2,476	\$ 4,150	\$ (6,644 )	\$ 2,476		
Comprehensive income attributable to Twenty-First Century Fox stockholders	\$ 2,249	\$ 2,425	\$ 4,011	\$ (6,260 )	\$ 2,425		

See notes to supplemental guarantor information

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## TWENTY-FIRST CENTURY FOX, INC.

## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

## Supplemental Condensed Consolidating Balance Sheet

As of March 31, 2018

(in millions)

	21st Century Fox America, Inc.		Twenty-First Century Fox	Non-Guarantor Eliminations	Reclassifications and	Century Fox and Subsidiaries
<b>ASSETS</b>						
Current assets						
Cash and cash equivalents	\$ 1,832	\$ 3,636	\$ 1,904	\$ -		\$ 7,372
Receivables, net	17	-	6,889	(1	)	6,905
Inventories, net	-	-	3,645	-		3,645
Other	65	-	674	-		739
<b>Total current assets</b>	<b>1,914</b>	<b>3,636</b>	<b>13,112</b>	<b>(1</b>	<b>)</b>	<b>18,661</b>
Non-current assets						
Receivables, net	13	-	723	-		736
Inventories, net	-	-	8,002	-		8,002
Property, plant and equipment, net	350	-	1,511	-		1,861
Intangible assets, net	-	-	6,174	-		6,174
Goodwill	-	-	12,794	-		12,794
Other non-current assets	279	-	1,215	-		1,494
Investments						
Investments in associated companies and other investments	179	188	3,889	-		4,256
Intragroup investments	111,942	64,297	-	(176,239	)	-
<b>Total investments</b>	<b>112,121</b>	<b>64,485</b>	<b>3,889</b>	<b>(176,239</b>	<b>)</b>	<b>4,256</b>
<b>Total assets</b>	<b>\$ 114,677</b>	<b>\$ 68,121</b>	<b>\$ 47,420</b>	<b>\$ (176,240</b>	<b>)</b>	<b>\$ 53,978</b>
<b>LIABILITIES AND EQUITY</b>						
Current liabilities						
Borrowings	\$ 1,300	\$ -	\$ 238	\$ -		\$ 1,538
Other current liabilities	728	380	6,454	(1	)	7,561

Total current liabilities	2,028	380	6,692	(1 )	9,099
Non-current liabilities					
Borrowings	17,276	-	1,183	-	18,459
Other non-current liabilities	500	73	4,863	-	5,436
Intercompany	43,612	48,697	(92,309 )	-	-
Redeemable noncontrolling interests	-	-	761	-	761
Total equity	51,261	18,971	126,230	(176,239 )	20,223
Total liabilities and equity	\$ 114,677	\$ 68,121	\$ 47,420	\$ (176,240 )	\$ 53,978

See notes to supplemental guarantor information

## TWENTY-FIRST CENTURY FOX, INC.

## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

## Supplemental Condensed Consolidating Balance Sheet

As of June 30, 2017

(in millions)

	21st Century Fox America, Inc.		Twenty-First Century Fox	Non-Guarantor Eliminations	Reclassifications and	Century Fox and Subsidiaries
<b>ASSETS</b>						
Current assets						
Cash and cash equivalents	\$ 40	\$ 4,882	\$ 1,241	\$ -		\$ 6,163
Receivables, net	6	-	6,472	(1	)	6,477
Inventories, net	-	-	3,101	-		3,101
Other	49	-	496	-		545
<b>Total current assets</b>	<b>95</b>	<b>4,882</b>	<b>11,310</b>	<b>(1</b>	<b>)</b>	<b>16,286</b>
Non-current assets						
Receivables, net	13	-	530	-		543
Inventories, net	-	-	7,452	-		7,452
Property, plant and equipment, net	297	-	1,484	-		1,781
Intangible assets, net	-	-	6,574	-		6,574
Goodwill	-	-	12,792	-		12,792
Other non-current assets	261	-	1,133	-		1,394
Investments						
Investments in associated companies and other investments	179	37	3,686	-		3,902
Intragroup investments	105,516	59,926	-	(165,442	)	-
<b>Total investments</b>	<b>105,695</b>	<b>59,963</b>	<b>3,686</b>	<b>(165,442</b>	<b>)</b>	<b>3,902</b>
<b>Total assets</b>	<b>\$ 106,361</b>	<b>\$ 64,845</b>	<b>\$ 44,961</b>	<b>\$ (165,443</b>	<b>)</b>	<b>\$ 50,724</b>
<b>LIABILITIES AND EQUITY</b>						
Current liabilities						
Borrowings	\$ 350	\$ -	\$ 107	\$ -		\$ 457
Other current liabilities	643	72	6,067	(1	)	6,781

Total current liabilities	993	72	6,174	(1 )	7,238
Non-current liabilities					
Borrowings	18,217	-	1,239	-	19,456
Other non-current liabilities	522	-	5,876	-	6,398
Intercompany	39,629	49,051	(88,680 )	-	-
Redeemable noncontrolling interests	-	-	694	-	694
Total equity	47,000	15,722	119,658	(165,442 )	16,938
Total liabilities and equity	\$ 106,361	\$ 64,845	\$ 44,961	\$ (165,443 )	\$ 50,724

See notes to supplemental guarantor information

TWENTY-FIRST CENTURY FOX, INC.

## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

## Supplemental Condensed Consolidating Statement of Cash Flows

For the nine months ended March 31, 2018

(in millions)

	21st Century Fox America, Inc.		Twenty-First Century Fox		Non-Guaranteed	Reclassification and Eliminations	Twenty-First Century Fox and Subsidiaries
<b>OPERATING ACTIVITIES</b>							
Net cash provided by (used in) operating activities from continuing operations	\$ 2,031	\$ (913 )	\$ 1,084	\$ -	\$ 2,202		
<b>INVESTING ACTIVITIES</b>							
Property, plant and equipment	(73 )	-	(270 )	-	(343 )		
Investments	(77 )	-	-	-	(77 )		
Net cash used in investing activities from continuing operations	(150 )	-	(270 )	-	(420 )		
<b>FINANCING ACTIVITIES</b>							
Borrowings	-	-	1,550	-	1,550		
Repayment of borrowings	-	-	(1,479 )	-	(1,479 )		
Dividends paid and distributions	-	(333 )	(246 )	-	(579 )		
Other financing activities, net	(47 )	-	(22 )	-	(69 )		
Net cash used in financing activities from continuing operations	(47 )	(333 )	(197 )	-	(577 )		
<b>Discontinued operations</b>							
Net decrease in cash and cash equivalents from discontinued operations	(42 )	-	-	-	(42 )		
Net increase (decrease) in cash and cash equivalents	1,792	(1,246 )	617	-	1,163		
Cash and cash equivalents, beginning of year	40	4,882	1,241	-	6,163		
Exchange movement on cash balances	-	-	46	-	46		

Cash and cash equivalents, end of period	\$ 1,832	\$ 3,636	\$ 1,904	\$ -	\$ 7,372
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See notes to supplemental guarantor information

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TWENTY-FIRST CENTURY FOX, INC.

## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

## Supplemental Condensed Consolidating Statement of Cash Flows

For the nine months ended March 31, 2017

(in millions)

	21st Century Fox America, Inc.		Twenty-First Century Fox		Non-Guaranteed Reclassifications and Eliminations	Twenty-First Century Fox and Subsidiaries
<b>OPERATING ACTIVITIES</b>						
Net cash (used in) provided by operating activities from continuing operations	\$ (875 )	\$ 3,101	\$ 201	\$ -	\$ 2,427	
<b>INVESTING ACTIVITIES</b>						
Property, plant and equipment	(10 )	-	(192 )	-	(202 )	
Investments	(95 )	-	(71 )	-	(166 )	
Net cash used in investing activities from continuing operations	(105 )	-	(263 )	-	(368 )	
<b>FINANCING ACTIVITIES</b>						
Borrowings	842	-	37	-	879	
Repayment of borrowings	(400 )	-	(146 )	-	(546 )	
Repurchase of shares	-	(619 )	-	-	(619 )	
Dividends paid and distributions	-	(335 )	(187 )	-	(522 )	
Other financing activities, net	(53 )	-	(19 )	-	(72 )	
Net cash provided by (used in) financing activities from continuing operations	389	(954 )	(315 )	-	(880 )	
<b>Discontinued operations</b>						
Net decrease in cash and cash equivalents from discontinued operations	(21 )	-	-	-	(21 )	
Net (decrease) increase in cash and cash equivalents	(612 )	2,147	(377 )	-	1,158	
Cash and cash equivalents, beginning of year	661	2,019	1,744	-	4,424	
Exchange movement on cash balances	-	-	(10 )	-	(10 )	

Cash and cash equivalents, end of period	\$ 49	\$ 4,166	\$ 1,357	\$ -	\$ 5,572
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See notes to supplemental guarantor information

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TWENTY-FIRST CENTURY FOX, INC.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Notes to Supplemental Guarantor Information

- (1) Investments in the Company's subsidiaries, for purposes of the supplemental consolidating presentation, are accounted for by their parent companies under the equity method of accounting whereby earnings of subsidiaries are reflected in the respective parent company's investment account and earnings.
- (2) The guarantees of 21CFA's senior public indebtedness constitute senior indebtedness of the Company, and rank pari passu with all present and future senior indebtedness of the Company. Because the factual basis underlying the obligations created pursuant to the various facilities and other obligations constituting senior indebtedness of the Company differ, it is not possible to predict how a court in bankruptcy would accord priorities among the obligations of the Company.

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## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This document contains statements that constitute "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Section 27A of the Securities Act of 1933, as amended. The words "expect," "estimate," "anticipate," "predict," "believe" and similar expressions and variations thereof are intended to identify forward-looking statements. These statements appear in a number of places in this document and include statements regarding the intent, belief or current expectations of Twenty-First Century Fox, Inc., its directors or its officers with respect to, among other things, the Disney Transaction and trends affecting Twenty-First Century Fox, Inc.'s financial condition or results of operations. The readers of this document are cautioned that any forward-looking statements are not guarantees of future performance and involve risks, uncertainties and assumptions that could cause actual results to differ materially from those expressed in any forward-looking statements, including, but not limited to, a failure to consummate the Disney Transaction in a timely matter or at all. More information regarding these risks, uncertainties and other factors is set forth under the heading Part II "Other Information," Item 1A "Risk Factors" in this report. Twenty-First Century Fox, Inc. does not ordinarily make projections of its future operating results and undertakes no obligation (and expressly disclaims any obligation) to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. Readers should carefully review this document and the other documents filed by Twenty-First Century Fox, Inc. with the Securities and Exchange Commission (the "SEC"). This section should be read together with the Unaudited Consolidated Financial Statements of Twenty-First Century Fox, Inc. and related notes set forth elsewhere herein and Twenty-First Century Fox, Inc.'s Annual Report on Form 10-K for the fiscal year ended June 30, ("fiscal") 2017 as filed with the SEC on August 14, 2017 (the "2017 Form 10-K").

### INTRODUCTION

Management's discussion and analysis of financial condition and results of operations is intended to help provide an understanding of Twenty-First Century Fox, Inc. and its subsidiaries' (together, "Twenty-First Century Fox" or the "Company") financial condition, changes in financial condition and results of operations. This discussion is organized as follows:

**Results of Operations** - This section provides an analysis of the Company's results of operations for the three and nine months ended March 31, 2018 and 2017. This analysis is presented on both a consolidated and a segment basis. In addition, a brief description is provided of significant transactions and events that impact the comparability of the results being analyzed.

**Liquidity and Capital Resources** - This section provides an analysis of the Company's cash flows for the nine months ended March 31, 2018 and 2017, as well as a discussion of the Company's outstanding debt and commitments, both firm and contingent, that existed as of March 31, 2018. Included in the discussion of outstanding debt is a discussion of the amount of financial capacity available to fund the Company's future commitments and obligations, as well as a discussion of other financing arrangements.

### Recent Developments

In May 2018, the Company entered into a definitive agreement with Sinclair Broadcast Group, Inc. and Tribune Media Company ("Tribune") to acquire seven television stations from Tribune.

In December 2017, the Company entered into an agreement and plan of merger with The Walt Disney Company ("Disney"). Prior to the merger, the Company will transfer a portfolio of the Company's news, sports and broadcast businesses and certain other assets and liabilities into a newly formed subsidiary ("New Fox") and the holders of the outstanding shares of the Company's Class A Common Stock and Class B Common Stock (other than holders

that are subsidiaries of the Company (shares held by such holders, the "Hook Stock")) will receive, on a pro rata basis, all of the issued and outstanding common stock of New Fox (the "New Fox Distribution").

In December 2016, the Company made an offer to purchase the fully diluted share capital of Sky plc ("Sky").

See Note 2 – Acquisitions, Disposals and Other Transactions to the accompanying Unaudited Consolidated Financial Statements of Twenty-First Century Fox under the headings "Disney Transaction/Distribution of New Fox", "Television Stations Acquisition" and "Sky Acquisition" for further details.

## RESULTS OF OPERATIONS

Results of Operations—For the three and nine months ended March 31, 2018 versus the three and nine months ended March 31, 2017

The following table sets forth the Company's operating results for the three and nine months ended March 31, 2018, as compared to the three and nine months ended March 31, 2017:

	For the three months ended			For the nine months ended		
	March 31,		% Change	March 31,		% Change
	2018	2017		2018	2017	
	(in millions, except %)					
<b>Revenues</b>						
Affiliate fee	\$3,507	\$3,160	11 %	\$9,995	\$8,989	11 %
Advertising	1,642	2,203	(25 ) %	5,761	6,338	(9 ) %
Content	2,148	2,078	3 %	6,307	5,979	5 %
Other	123	123	- %	396	446	(11 ) %
<b>Total revenues</b>	<b>7,420</b>	<b>7,564</b>	<b>(2 ) %</b>	<b>22,459</b>	<b>21,752</b>	<b>3 %</b>
<b>Operating expenses</b>	<b>(4,581)</b>	<b>(4,824)</b>	<b>(5 ) %</b>	<b>(14,722)</b>	<b>(13,651)</b>	<b>8 %</b>
Selling, general and administrative	(959 )	(817 )	17 %	(2,671 )	(2,424 )	10 %
Depreciation and amortization	(145 )	(140 )	4 %	(429 )	(410 )	5 %
Impairment and restructuring charges	(34 )	(37 )	(8 ) %	(58 )	(213 )	(73 ) %
Equity losses of affiliates	(86 )	(51 )	(69 ) %	(59 )	(57 )	(4 ) %
Interest expense, net	(311 )	(310 )	- %	(936 )	(909 )	3 %
Interest income	10	9	11 %	29	27	7 %
Other, net	17	(142 )	**	(284 )	(241 )	(18 ) %
<b>Income from continuing operations before income tax (expense) benefit</b>	<b>1,331</b>	<b>1,252</b>	<b>6 %</b>	<b>3,329</b>	<b>3,874</b>	<b>(14 ) %</b>
Income tax (expense) benefit	(370 )	(370 )	- %	457	(1,161 )	**
<b>Income from continuing operations</b>	<b>961</b>	<b>882</b>	<b>9 %</b>	<b>3,786</b>	<b>2,713</b>	<b>40 %</b>
Loss from discontinued operations, net of tax	(18 )	(12 )	50 %	(7 )	(19 )	(63 ) %
<b>Net income</b>	<b>943</b>	<b>870</b>	<b>8 %</b>	<b>3,779</b>	<b>2,694</b>	<b>40 %</b>
Less: Net income attributable to noncontrolling interests	(85 )	(71 )	20 %	(235 )	(218 )	8 %
<b>Net income attributable to Twenty-First Century Fox stockholders</b>	<b>\$858</b>	<b>\$799</b>	<b>7 %</b>	<b>\$3,544</b>	<b>\$2,476</b>	<b>43 %</b>

\*\* not meaningful

Overview – The Company’s revenues decreased 2% for the three months ended March 31, 2018, as compared to the corresponding period of fiscal 2017, as higher affiliate fee and content revenues were more than offset by lower advertising revenue. The Company’s revenues increased 3% for the nine months ended March 31, 2018, as compared to the corresponding period of fiscal 2017, due to higher affiliate fee and content revenues partially offset by lower advertising revenue. The increase in affiliate fee revenue was primarily attributable to contractual rate increases at the domestic channels and higher rates and additional subscribers at Fox Networks Group International (“FNGI”) in Latin America and Europe. The increase in content revenue was primarily due to the sublicensing of Big Ten programming rights to third party networks. The decrease in advertising revenue was primarily due to the comparative effect of the broadcast of Super Bowl LI in February 2017, lower National Football League (“NFL”) ratings and the broadcast of one less NFL postseason game. Also contributing to the decrease for the nine months ended March 31, 2018 was lower political advertising revenue partially offset by higher advertising revenue at STAR India (“STAR”). These revenue increases include benefits of approximately \$85 million and \$145 million due to the strengthening of local currencies against the U.S. dollar for the three and nine months ended March 31, 2018, respectively, as compared to the corresponding periods of fiscal 2017.

Operating expenses decreased 5% for the three months ended March 31, 2018, as compared to the corresponding period of fiscal 2017, primarily due to lower programming rights amortization at the Television segment, as a result of the absence of the Super Bowl, partially offset by higher sports programming rights amortization at the Cable Network Programming segment. Operating expenses increased 8% for the nine months ended March 31, 2018, as compared to the corresponding period of fiscal 2017, primarily due to higher sports programming rights amortization at the Cable Network Programming segment and higher theatrical marketing costs from motion picture productions at the Filmed Entertainment segment partially offset by lower programming rights amortization at the Television segment.

Selling, general and administrative expenses increased 17% and 10% for the three and nine months ended March 31, 2018, respectively, as compared to the corresponding periods of fiscal 2017, primarily due to higher compensation expenses, including approximately \$60 million of additional compensation expenses related to the Disney Transaction/Distribution of New Fox (See Note 2 – Acquisitions, Disposals and Other Transactions to the accompanying Unaudited Consolidated Financial Statements of Twenty-First Century Fox under the heading “Disney Transaction/Distribution of New Fox”), and higher legal fees.

Impairment and restructuring charges – See Note 11 – Additional Financial Information to the accompanying Unaudited Consolidated Financial Statements of Twenty-First Century Fox under the heading “Impairment and restructuring charges”.

Equity losses of affiliates – Equity losses of affiliates increased \$35 million and \$2 million for the three and nine months ended March 31, 2018, respectively, as compared to the corresponding periods of fiscal 2017. The increases were primarily due to higher losses at Hulu, LLC (“Hulu”) partially offset by improved results at Endemol Shine Group and higher earnings at Sky.

	For the three months ended			For the nine months ended		
	March 31,			March 31,		
	2018	2017	% Change	2018	2017	% Change
	(in millions, except %)					
Sky	\$117	\$93	26 %	\$347	\$255	36 %
Hulu	(148)	(62)	**	(318)	(161)	(98) %
Other equity affiliates	(55)	(82)	33 %	(88)	(151)	42 %
Equity losses of affiliates	\$(86)	\$(51)	(69) %	\$(59)	\$(57)	(4) %

\*\* not meaningful

Other, net – See Note 11 – Additional Financial Information to the accompanying Unaudited Consolidated Financial Statements of Twenty-First Century Fox under the heading “Other, net”.

Income tax (expense) benefit – The Company’s effective income tax rate for the three and nine months ended March 31, 2018 was 28% and (14)%, respectively, as compared to the statutory rate of 28%. For the three months ended March 31, 2018, the rate reflects a benefit from domestic production activities offset by other permanent items. The rate for the nine months ended March 31, 2018 includes a provisional \$1.3 billion tax benefit as a result of the legislation in the U.S. passed in the previous quarter commonly referred to as the Tax Cuts and Jobs Act (the “Tax Act”) (See Note 1 –



Basis of Presentation to the accompanying Unaudited Consolidated Financial Statements of Twenty-First Century Fox under the heading “U.S. Tax Reform”).

The Company’s effective income tax rate for the three and nine months ended March 31, 2017 was 30%, as compared to the statutory rate of 35%. For the three and nine months ended March 31, 2017, the rate was lower than the statutory rate primarily due to a 3% benefit from domestic production activities and other permanent items.

During the fourth quarter of fiscal 2018, the Company expects to recognize a tax benefit of approximately \$130 million related to the completion of the U.S. federal tax audits for fiscal years 2009 through 2013.

Net income – Net income increased for the three months ended March 31, 2018, as compared to the corresponding period of fiscal 2017, primarily due to the shareholder litigation settlement (See Note 11 – Additional Financial Information to the accompanying Unaudited Consolidated Financial Statements of Twenty-First Century Fox under the heading “Other, net”). Net income increased for the nine months ended March 31, 2018, as compared to the corresponding period of fiscal 2017, primarily due to the income tax benefit as a result of the Tax Act partially offset by lower Segment OIBDA.

## Segment Analysis

The Company's operating segments have been determined in accordance with the Company's internal management structure, which is organized based on operating activities. The Company evaluates performance based upon several factors, of which the primary financial measure is Segment OIBDA. Due to the integrated nature of these operating segments, estimates and judgments are made in allocating certain assets, revenues and expenses.

Segment OIBDA is defined as Revenues less Operating expenses and Selling, general and administrative expenses. Segment OIBDA does not include: Amortization of cable distribution investments, Depreciation and amortization, Impairment and restructuring charges, Equity losses of affiliates, Interest expense, net, Interest income, Other, net, Income tax (expense) benefit, Loss from discontinued operations, net of tax and Net income attributable to noncontrolling interests. Management believes that Segment OIBDA is an appropriate measure for evaluating the operating performance of the Company's business segments because it is the primary measure used by the Company's chief operating decision maker to evaluate the performance of and allocate resources to the Company's businesses.

Management believes that information about Total Segment OIBDA assists all users of the Company's Unaudited Consolidated Financial Statements by allowing them to evaluate changes in the operating results of the Company's portfolio of businesses separate from non-operational factors that affect net income, thus providing insight into both operations and the other factors that affect reported results. Total Segment OIBDA provides management, investors and equity analysts a measure to analyze the operating performance of the Company's business and its enterprise value against historical data and competitors' data, although historical results, including Segment OIBDA and Total Segment OIBDA, may not be indicative of future results (as operating performance is highly contingent on many factors, including customer tastes and preferences).

Total Segment OIBDA may be considered a non-GAAP measure and should be considered in addition to, not as a substitute for, net income, cash flow and other measures of financial performance reported in accordance with U.S. generally accepted accounting principles ("GAAP"). In addition, this measure does not reflect cash available to fund requirements and excludes items, such as depreciation and amortization and impairment charges, which are significant components in assessing the Company's financial performance.

The following table reconciles Income from continuing operations before income tax (expense) benefit to Total Segment OIBDA for the three and nine months ended March 31, 2018, as compared to the three and nine months ended March 31, 2017:

	For the three months ended			For the nine months ended		
	March 31,		% Change	March 31,		% Change
	2018	2017		2018	2017	
Income from continuing operations before income tax (expense) benefit	\$1,331	\$1,252	6 %	\$3,329	\$3,874	(14)%
Add						
Amortization of cable distribution investments	14	15	(7 ) %	57	46	24 %
Depreciation and amortization	145	140	4 %	429	410	5 %
Impairment and restructuring charges	34	37	(8 ) %	58	213	(73)%
Equity losses of affiliates	86	51	(69 ) %	59	57	(4 ) %

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Interest expense, net	311	310	-	%	936	909	3	%
Interest income	(10 )	(9 )	11	%	(29 )	(27 )	7	%
Other, net	(17 )	142	**		284	241	(18)	%
Total Segment OIBDA	\$1,894	\$1,938	(2 )	%	\$5,123	\$5,723	(10)	%

\*\* not meaningful

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The following table sets forth the computation of Total Segment OIBDA for the three and nine months ended March 31, 2018, as compared to the three and nine months ended March 31, 2017:

	For the three months ended			For the nine months ended		
	March 31,			March 31,		
	2018	2017	% Change	2018	2017	% Change
	(in millions, except %)					
Revenues	\$7,420	\$7,564	(2 ) %	\$22,459	\$21,752	3 %
Operating expenses	(4,581)	(4,824)	(5 ) %	(14,722)	(13,651)	8 %
Selling, general and administrative	(959 )	(817 )	17 %	(2,671 )	(2,424 )	10 %
Amortization of cable distribution investments	14	15	(7 ) %	57	46	24 %
<b>Total Segment OIBDA</b>	<b>\$1,894</b>	<b>\$1,938</b>	<b>(2 ) %</b>	<b>\$5,123</b>	<b>\$5,723</b>	<b>(10)%</b>

The following tables set forth the Company's Revenues and Segment OIBDA for the three and nine months ended March 31, 2018, as compared to the three and nine months ended March 31, 2017:

	For the three months ended			For the nine months ended		
	March 31,			March 31,		
	2018	2017	% Change	2018	2017	% Change
	(in millions, except %)					
<b>Revenues</b>						
Cable Network Programming	\$4,419	\$4,024	10 %	\$13,020	\$11,801	10 %
Television	1,149	1,690	(32 ) %	4,020	4,646	(13) %
Filmed Entertainment	2,243	2,256	(1 ) %	6,452	6,432	- %
Other, Corporate and Eliminations	(391 )	(406 )	4 %	(1,033 )	(1,127 )	8 %
<b>Total revenues</b>	<b>\$7,420</b>	<b>\$7,564</b>	<b>(2 ) %</b>	<b>\$22,459</b>	<b>\$21,752</b>	<b>3 %</b>

	For the three months ended			For the nine months ended		
	March 31,			March 31,		
	2018	2017	% Change	2018	2017	% Change
	(in millions, except %)					
<b>Segment OIBDA</b>						
Cable Network Programming	\$1,684	\$1,446	16 %	\$4,560	\$4,160	10 %
Television	78	190	(59 ) %	256	757	(66) %
Filmed Entertainment	286	373	(23 ) %	673	1,073	(37) %

Other, Corporate and Eliminations	(154 )	(71 )	**	(366 )	(267 )	(37)%
Total Segment OIBDA	\$1,894	\$1,938	(2 )%	\$5,123	\$5,723	(10)%

\*\*not meaningful

Cable Network Programming (58% and 54% of the Company's consolidated revenues in the first nine months of fiscal 2018 and 2017, respectively)

For the three and nine months ended March 31, 2018, revenues at the Cable Network Programming segment increased 10%, or \$395 million and \$1,219 million, respectively, as compared to the corresponding periods of fiscal 2017, primarily due to higher affiliate fee and content and other revenues as shown below:

	For the three months ended March 31, 2018			For the nine months ended March 31, 2018		
	% Increase (Decrease)		Consolidated	% Increase		Consolidated
	Domestic	International		Domestic	International	
Affiliate fee	10 %	14 %	11 %	11 %	13 %	11 %
Advertising	3 %	(1 ) %	1 %	1 %	8 %	4 %
Content and other	29 %	11 %	22 %	19 %	24 %	20 %
Total	10 %	9 %	10 %	10 %	12 %	10 %

These revenue increases include benefits of approximately \$35 million and \$65 million due to the strengthening of local currencies against the U.S. dollar, primarily in India and Europe, for the three and nine months ended March 31, 2018, respectively, as compared to the corresponding periods of fiscal 2017.

For the three and nine months ended March 31, 2018, Cable Network Programming Segment OIBDA increased \$238 million, or 16%, and \$400 million, or 10%, respectively, as compared to the corresponding periods of fiscal 2017, primarily due to the revenue increases noted above partially offset by higher expenses of \$157 million, or 6%, and \$819 million, or 11%, respectively. For the three and nine months ended March 31, 2018, the increases in expenses were primarily due to higher sports programming rights amortization.

#### Domestic Channels

For the three and nine months ended March 31, 2018, domestic affiliate fee revenue increased, as compared to the corresponding periods of fiscal 2017, primarily due to contractual rate increases led by Fox News Channel, Regional Sports Networks, FS1 and FX Networks. Partially offsetting the increase in domestic affiliate fee revenue for the nine months ended March 31, 2018 was the impact of lower average subscribers at certain channels, including Fox News Channel. For the three and nine months ended March 31, 2018, domestic advertising revenue increased, as compared to the corresponding periods of fiscal 2017, primarily due to higher pricing at Fox News Channel, higher viewership at FS1, including the addition of Big Ten events, and increased digital advertising revenue at National Geographic Partners partially offset by lower ratings at FX Networks principally reflecting a lower number of original series. The increases in domestic content and other revenues for the three and nine months ended March 31, 2018, as compared to the corresponding periods of fiscal 2017, were primarily due to the sublicensing of Big Ten programming rights to third party networks partially offset by lower content revenue at FX Networks because of the timing of content availability.

For the three and nine months ended March 31, 2018, domestic channels OIBDA increased 15% and 9%, respectively, as compared to the corresponding periods of fiscal 2017, primarily due to the revenue increases noted above partially offset by higher expenses. Operating expenses increased approximately \$75 million and \$405 million for the three and nine months ended March 31, 2018, respectively, as compared to the corresponding periods of fiscal 2017, primarily due to higher sports programming rights amortization, including the addition of the Big Ten programming rights and higher National Basketball Association (“NBA”) costs as a result of contractual rate increases partially offset by lower programming amortization at FX Networks. Selling, general and administrative expenses increased approximately \$35 million and \$95 million for the three and nine months ended March 31, 2018, respectively, as compared to the corresponding periods of fiscal 2017, primarily due to higher compensation expenses and legal fees.

#### International Channels

For the three and nine months ended March 31, 2018, international affiliate fee revenue increased, as compared to the corresponding periods of fiscal 2017, led by higher rates and additional subscribers at FNGI in Latin America and Europe. For the three months ended March 31, 2018, international advertising revenue decreased, as compared to the corresponding period of fiscal 2017, primarily due to a lower number of cricket matches broadcast in the current period compared to the prior year at STAR partially offset by an increase at FNGI. For the nine months ended March 31, 2018, international advertising revenue increased, as compared to the corresponding period of fiscal 2017, led by higher pricing and volume at STAR’s general entertainment channels and at FNGI in Latin America and Europe. The increases in international content and other revenues for the three and nine months ended March 31, 2018, as compared to the corresponding periods of fiscal 2017, were primarily due to higher revenues from television productions, primarily in Latin America. Also contributing to the increases in international content and other revenues for the nine months ended March 31, 2018 was the sublicensing of soccer programming rights in Latin America.

For the three and nine months ended March 31, 2018, international channels OIBDA increased 23% and 11%, respectively, as compared to the corresponding periods of fiscal 2017, as the revenue increases noted above were partially offset by higher expenses. Operating expenses increased approximately \$40 million and \$335 million for the three and nine months ended March 31, 2018, respectively, as compared to the corresponding periods of fiscal 2017, primarily due to higher entertainment and sports programming rights amortization at FNGI in Latin America and Europe partially offset by lower sports programming rights amortization at STAR due to fewer cricket matches. Also contributing to the increase in operating expenses for the nine months ended March 31, 2018 was higher entertainment programming rights amortization at STAR.

Television (18% and 21% of the Company's consolidated revenues in the first nine months of fiscal 2018 and 2017, respectively)

For the three and nine months ended March 31, 2018, revenues at the Television segment decreased \$541 million, or 32%, and \$626 million, or 13%, respectively, as compared to the corresponding periods of fiscal 2017, as higher affiliate fee revenue was more than offset by lower advertising revenue. Affiliate fee revenue increased 11% and 10% for the three and nine months ended March 31, 2018, respectively, as compared to the corresponding periods of fiscal 2017, because of contractual rate increases. Advertising revenue decreased 44% and 19% for the three and nine months ended March 31, 2018, respectively, as compared to the corresponding periods of fiscal 2017, primarily due to the comparative effect of revenues arising from the broadcast of Super Bowl LI in February 2017 of approximately \$425 million, lower NFL ratings, the broadcast of one less NFL postseason game and lower entertainment ratings at FOX Broadcasting Company ("FOX"). Also contributing to the decrease in advertising revenue for the nine months ended March 31, 2018 were lower political advertising revenue and lower ratings for Major League Baseball World Series games partially offset by the broadcast of a higher number of college football games and for the three months ended March 31, 2018, the broadcast of fewer NFL regular season games. Content and other revenues were relatively consistent for the three months ended March 31, 2018 and decreased 19% for the nine months ended March 31, 2018, as compared to the corresponding periods of fiscal 2017, primarily due to the absence of revenue generated in the prior year by one of our television stations granting a license to permit the commercial use of adjacent wireless spectrum in that market.

For the three and nine months ended March 31, 2018, Television Segment OIBDA decreased \$112 million, or 59%, and \$501 million, or 66%, respectively, as compared to the corresponding periods of fiscal 2017, primarily due to the revenue decreases noted above partially offset by lower expenses of \$429 million, or 29%, and \$125 million, or 3%, respectively, as compared to the corresponding periods of fiscal 2017. Operating expenses decreased approximately \$435 million and \$160 million for the three and nine months ended March 31, 2018, respectively, as compared to the corresponding periods of fiscal 2017, primarily due to lower sports programming rights amortization and production costs, including the broadcast of Super Bowl LI in February 2017, and the broadcast of one less NFL postseason game, and lower entertainment programming rights amortization at FOX as a result of the mix of programs compared to the prior year. Partially offsetting the decrease in sports programming rights amortization for the nine months ended March 31, 2018 was the broadcast of a higher number of college football games. The decreases in operating expenses noted above were partially offset by an increase in selling, general and administrative expenses. The absence of Super Bowl LI in the current year decreased Segment OIBDA by approximately \$100 million for the three and nine months ended March 31, 2018.

Filmed Entertainment (29% and 30% of the Company's consolidated revenues in the first nine months of fiscal 2018 and 2017, respectively)

For the three and nine months ended March 31, 2018, revenues at the Filmed Entertainment segment remained relatively consistent, as compared to the corresponding periods of fiscal 2017, primarily due to higher worldwide theatrical and home entertainment revenues from motion picture productions offset by lower television licensing revenues from motion picture and television productions. The revenues at the Filmed Entertainment segment include benefits of approximately \$50 million and \$80 million due to the strengthening of local currencies against the U.S. dollar for the three and nine months ended March 31, 2018, respectively, as compared to the corresponding periods of fiscal 2017.



For the three and nine months ended March 31, 2018, Filmed Entertainment Segment OIBDA decreased \$87 million, or 23%, and \$400 million, or 37% respectively, as compared to the corresponding periods of fiscal 2017, primarily due to higher expenses of \$74 million, or 4%, and \$420 million, or 8%, respectively. Operating expenses increased approximately \$50 million and \$375 million for the three and nine months ended March 31, 2018, respectively, as compared to the corresponding periods of fiscal 2017, primarily due to higher theatrical marketing costs, as a result of the mix of theatrical releases in the current year periods as compared to the corresponding prior year periods, higher production amortization from motion picture productions, and higher costs at FoxNext Games related to the release of the mobile game, Marvel Strike Force. Partially offsetting the increase in operating expenses for the three months ended March 31, 2018 were lower production amortization and participation costs from television productions.

The following feature film titles contributed significant revenues for the three months ended March 31, 2018 and 2017:

	For the three months ended March 31,	
	2018	2017
Worldwide theatrical performances	The Greatest Showman	Logan
	Maze Runner: The Death Cure	Hidden Figures
Worldwide theatrical and home entertainment performances	Ferdinand	
	The Shape of Water	
	Three Billboards Outside Ebbing, Missouri	
Worldwide home entertainment performances	Kingsman: The Golden Circle	Trolls
	Murder on the Orient Express	

The following feature film titles contributed significant revenues for the nine months ended March 31, 2018 and 2017:

	For the nine months ended March 31,	
	2018	2017
Worldwide theatrical performances	The Greatest Showman	Logan
	Murder on the Orient Express	Hidden Figures
	Ferdinand	
	Maze Runner: The Death Cure	
Worldwide theatrical and home entertainment performances	War for the Planet of the Apes	Trolls
	Kingsman: The Golden Circle	Ice Age: Collision Course
		Miss Peregrine's Home for Peculiar Children
		Independence Day: Resurgence
Worldwide home entertainment performances	The Boss Baby	X-Men: Apocalypse

## LIQUIDITY AND CAPITAL RESOURCES

### Current Financial Condition

The Company's principal source of liquidity is internally generated funds. The Company also has an unused \$1.4 billion revolving credit facility, as amended, which expires in May 2020, and has access to various film co-financing alternatives to supplement its cash flows. In addition, the Company has access to the worldwide capital markets,

subject to market conditions. As of March 31, 2018, the Company was in compliance with all of the covenants under the revolving credit facility, and it does not anticipate any violation of such covenants. The Company's internally generated funds are highly dependent upon the state of the advertising markets and public acceptance of its film and television productions.

The principal uses of cash that affect the Company's liquidity position include the following: investments in the production and distribution of new motion pictures and television programs; the acquisition of rights and related payments for entertainment and sports programming; operational expenditures including employee costs; capital expenditures; interest expenses; income tax payments; investments in associated entities; dividends; acquisitions; debt repayments; and stock repurchases.

In addition to the acquisitions, sales and possible acquisitions disclosed elsewhere, the Company has evaluated, and expects to continue to evaluate, possible acquisitions and dispositions of certain businesses and assets. Such transactions may be material and may involve cash, the Company's securities or the assumption of additional indebtedness (See Note 2 – Acquisitions, Disposals and Other Transactions to the accompanying Unaudited Consolidated Financial Statements of Twenty-First Century Fox under the headings “Disney Transaction/Distribution of New Fox” and “Sky Acquisition”).

## Sources and Uses of Cash

Net cash provided by operating activities for the nine months ended March 31, 2018 and 2017 was as follows (in millions):

For the nine months ended March 31,	2018	2017
Net cash provided by operating activities from continuing operations	\$2,202	\$2,427

The decrease in net cash provided by operating activities during the nine months ended March 31, 2018, as compared to the corresponding period of fiscal 2017, is primarily due to lower operating results partially offset by higher collections over billings at the Filmed Entertainment and Television segments.

Net cash used in investing activities for the nine months ended March 31, 2018 and 2017 was as follows (in millions):

For the nine months ended March 31,	2018	2017
Net cash used in investing activities from continuing operations	\$(420)	\$(368)

The increase in net cash used in investing activities during the nine months ended March 31, 2018, as compared to the corresponding period of fiscal 2017, was primarily due to additional investments in Hulu and higher capital expenditures partially offset by cash received from the Federal Communications Commission's reverse auction for broadcast spectrum (See Note 2 – Acquisitions, Disposals and Other Transactions to the accompanying Unaudited Consolidated Financial Statements of Twenty-First Century Fox under the heading "Other").

Net cash used in financing activities for the nine months ended March 31, 2018 and 2017 was as follows (in millions):

For the nine months ended March 31,	2018	2017
Net cash used in financing activities from continuing operations	\$(577)	\$(880)

The decrease in net cash used in financing activities during the nine months ended March 31, 2018, as compared to the corresponding period of fiscal 2017, was primarily due to the Company not repurchasing any of its common stock during the nine months ended March 31, 2018 partially offset by a decrease in net borrowings.

## Stock Repurchase Program

The Company has a stock repurchase program, but did not repurchase any of its Class A Common Stock or Class B Common Stock during the nine months ended March 31, 2018 and is required pursuant to the Merger Agreement to obtain Disney's consent prior to repurchasing any additional shares (See Note 7 – Stockholders' Equity to the accompanying Unaudited Consolidated Financial Statements of Twenty-First Century Fox under the heading "Stock Repurchase Program").

## Debt Instruments

The following table summarizes cash from borrowings and cash used in repayment of borrowings for the nine months ended March 31, 2018 and 2017:

	For the nine months ended	
	March 31, 2018	2017
	(in millions)	
<b>Borrowings</b>		
Notes due 2026 and 2046	\$ -	\$ 842
Bank loans <sup>(a)</sup>	1,550	37
<b>Total borrowings</b>	<b>\$ 1,550</b>	<b>\$ 879</b>
<b>Repayment of borrowings</b>		
Notes due October 2016	\$ -	\$ (400 )
Bank loans <sup>(a)</sup>	(1,479 )	(146 )
	-	
<b>Total repayment of borrowings</b>	<b>\$ (1,479 )</b>	<b>\$ (546 )</b>

<sup>(a)</sup>The fiscal 2018 activity includes the effect of the amendment to the Yankees Entertainment and Sports Network (the “YES Network”) credit agreement and the current borrowings at STAR (See Note 6 – Borrowings to the accompanying Unaudited Consolidated Financial Statements of Twenty-First Century Fox under the heading “Bank Loans”). The fiscal 2017 borrowings and repayments were related to the YES Network secured revolving credit facility.

## Ratings of the public debt

The following table summarizes the Company’s credit ratings as of March 31, 2018:

Rating Agency	Senior Debt Outlook	
Moody's <sup>(a)</sup>	Baa1	Under review
Standard & Poor's <sup>(a)</sup>	BBB+	Watch developing

<sup>(a)</sup>Moody’s and Standard & Poor’s changed the outlook of the Company’s public debt from Stable to Under review and from Watch negative to Watch developing, respectively, in December 2017, following the Company’s announcement of the Disney Transaction (See Note 2 – Acquisitions, Disposals and Other Transactions to the accompanying Unaudited Consolidated Financial Statements of Twenty-First Century Fox under the heading “Disney Transaction/Distribution of New Fox”).

## Revolving Credit Agreement

21st Century Fox America, Inc. (“21CFA”), a wholly-owned subsidiary of the Company, is party to a credit agreement providing a \$1.4 billion unsecured revolving credit facility with a sub-limit of \$250 million (or its equivalent in Euros) available for the issuance of letters of credit and a maturity date of May 2020 (See Note 11 – Borrowings in the 2017 Form 10-K under the heading “Revolving Credit Agreement”).

#### Bridge Credit Agreement

To provide financing in connection with the Sky Acquisition, the Company and 21CFA entered into a bridge credit agreement (See Note 2 – Acquisitions, Disposals and Other Transactions to the accompanying Unaudited Consolidated Financial Statements of Twenty-First Century Fox under the heading “Sky Acquisition”).

#### Commitments, Contingent Guarantees and Contingencies

See Note 9 – Commitments and Contingencies to the accompanying Unaudited Consolidated Financial Statements of Twenty-First Century Fox under the headings “Commitments”, “Contingent Guarantees” and “Contingencies”.

#### Recent Accounting Pronouncements

See Note 1 – Basis of Presentation to the accompanying Unaudited Consolidated Financial Statements of Twenty-First Century Fox under the heading “Recently Adopted and Recently Issued Accounting Guidance and U.S. Tax Reform”.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company has exposure to several types of market risk: changes in foreign currency exchange rates, interest rates and stock prices. The Company neither holds nor issues financial instruments for trading purposes.

The following sections provide quantitative and qualitative information on the Company's exposure to foreign currency exchange rate risk, interest rate risk and stock price risk. The Company makes use of sensitivity analyses that are inherently limited in estimating actual losses in fair value that can occur from changes in market conditions.

## Foreign Currency Exchange Rates

The U.S. dollar is the functional currency of the Company's U.S. operations and continues to be the principal currency in which the Company conducts its operations. For operations outside the U.S., the respective local currency is generally the functional currency. In most regions where the Company operates, the net earnings of wholly owned subsidiaries are reinvested locally and working capital requirements are met from existing liquid funds. To the extent such funds are not sufficient to meet working capital requirements, draw downs in the appropriate local currency are generally available from intercompany borrowings. The Company uses foreign currency forward contracts, primarily denominated in Pounds Sterling and Canadian Dollars to hedge certain exposures to foreign currency exchange rate risks associated with revenues and the cost of producing or acquiring films and television programming. The Company also entered into a foreign currency option contract to limit its foreign currency exchange rate risk in connection with the Sky Acquisition. For accounting purposes, the option contract does not qualify for hedge accounting and therefore has been treated as an economic hedge (See Note 2 – Acquisitions, Disposals and Other Transactions to the accompanying Unaudited Consolidated Financial Statements of Twenty-First Century Fox under the heading "Sky Acquisition"). Information on the derivative financial instruments with exposure to foreign currency exchange rate risk is presented below:

	As of March 31, 2018 (in millions)	As of June 30, 2017
<b>Notional Amount (Foreign currency purchases and sales, including options)</b>		
Foreign currency purchases	\$12,892	\$12,529
Foreign currency sales	9	51
Aggregate notional amount	\$12,901	\$12,580
<b>Notional Amount (Hedge type)</b>		
Cash flow hedges	\$107	\$209
Economic hedges	12,794	12,371
Aggregate notional amount	\$12,901	\$12,580
<b>Fair Value</b>		
Total fair value of financial instruments with foreign currency exchange rate risk: asset	\$145	\$38

Sensitivity Analysis

Potential change in fair values resulting from a 10% adverse change in quoted foreign currency exchange rates: loss \$(153 ) \$(53 )

Interest Rates

The Company's current financing arrangements and facilities include approximately \$18.7 billion of outstanding fixed-rate debt and, at the YES Network and STAR India, approximately \$1.2 billion and \$207 million, respectively, of outstanding variable-rate bank debt, before adjustments for unamortized discount and debt issuance costs.

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Fixed and variable-rate debts are impacted differently by changes in interest rates. A change in the interest rate or yield of fixed-rate debt will only impact the fair market value of such debt, while a change in the interest rate of variable-rate debt will impact interest expense, as well as the amount of cash required to service such debt. As of March 31, 2018, substantially all of the Company's financial instruments with exposure to interest rate risk were denominated in U.S. dollars. Information on financial instruments with exposure to interest rate risk is presented below:

	As of March 31, 2018 (in millions)	As of June 30, 2017
<b>Fair Value</b>		
Borrowings: liability <sup>(a)</sup>	\$(23,861)	\$(23,853)
Interest rate swaps: asset <sup>(b)</sup>	8	1
Total fair value of financial instruments with exposure to interest rate risk: liability	\$(23,853)	\$(23,852)
<b>Sensitivity Analysis</b>		
Potential change in fair values resulting from a 10% adverse change in quoted interest rates: loss	\$(876 )	\$(859 )

<sup>(a)</sup>The change in the fair values of the Company's borrowings is primarily due to higher average debt outstanding partially offset by the effect of changes in interest rates.

<sup>(b)</sup>The notional amount of interest rate swap contracts outstanding was \$621 million and \$663 million as of March 31, 2018 and June 30, 2017, respectively.

#### Stock Prices

The Company has common stock investments in publicly traded companies that are subject to market price volatility. These investments principally represent the Company's investment in an equity method affiliate. Information on the Company's investments with exposure to stock price risk is presented below:

	As of March 31, 2018 (in millions)	As of June 30, 2017
<b>Fair Value</b>		
Total fair value of common stock investments	\$12,425	\$8,713

Sensitivity Analysis

Potential change in fair values resulting from a 10% adverse change in quoted market prices:

loss<sup>(a)</sup> \$(1,243 ) \$(871 )

<sup>(a)</sup> A hypothetical decrease would not result in a material adjustment recognized in the Unaudited Consolidated Statements of Operations, as any changes in fair value of the Company's equity method affiliates are not recognized unless the fair value declines below the investment's carrying value and the decline is deemed other-than-temporary.

Concentrations of Credit Risk

See Note 5 – Fair Value to the accompanying Unaudited Consolidated Financial Statements of Twenty-First Century Fox under the heading “Concentrations of Credit Risk”.

#### ITEM 4. CONTROLS AND PROCEDURES

##### (a) Disclosure Controls and Procedures

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this quarterly report. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures were effective in recording, processing, summarizing and reporting on a timely basis, information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act and were effective in ensuring that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

##### (b) Internal Control Over Financial Reporting

There has been no change in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the Company's third quarter of fiscal 2018 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II

### ITEM 1. LEGAL PROCEEDINGS

#### Fox News Channel

The Company and certain of its current and former employees have been subject to allegations of sexual harassment and discrimination and racial discrimination relating to alleged misconduct at the Company's Fox News Channel business. The Company has settled some of these claims and is contesting other claims in litigation. The Company has also received regulatory and investigative inquiries relating to these matters. To date, none of the amounts paid in settlements or reserved for pending or future claims, is individually or in the aggregate, material to the Company. The amount of liability, if any, that may result from these or related matters cannot be estimated at this time. However, the Company does not currently anticipate that the ultimate resolution of any such pending matters will have a material adverse effect on its consolidated financial condition, future results of operations or liquidity.

#### Shareholder Litigation

On November 20, 2017, a stockholder of the Company filed a derivative action in the Court of Chancery of the State of Delaware captioned City of Monroe Employees' Retirement System v. Rupert Murdoch, et al., C.A. No. 2017-0833-AGB. The lawsuit named as defendants all directors of the Company and the Estate of Roger Ailes (the "Ailes Estate"), and named the Company as a nominal defendant. The plaintiff alleged that the directors of the Company and Rupert Murdoch as a purported controlling stockholder breached their fiduciary duties by, among other things, failing to properly oversee the work environment at Fox News. The plaintiff also brought claims of breach of fiduciary duty and unjust enrichment against the Ailes Estate.

On November 20, 2017, the parties reached an agreement to settle the lawsuit and filed a Stipulation and Agreement of Settlement, Compromise, and Release with the Court (the "Settlement Agreement"). Pursuant to the terms of the Settlement Agreement, the parties agreed that the director defendants and the Ailes Estate would cause their insurers to make a payment in the amount of \$90 million to the Company, less approximately \$22 million of attorneys' fees and expenses awarded by the Court to the plaintiff's counsel. Such amount was paid pursuant to an agreement reached between the defendants and their directors' and officers' liability insurers for the payment of insurance proceeds, subject to a claims release. In addition to the payment to the Company, the Settlement Agreement provides that the Company shall put in place governance and compliance enhancements, including the creation of the Fox News Workplace Professionalism and Inclusion Council, as set forth in the Non-Monetary Relief Agreement agreed to by the parties in connection with the Settlement Agreement. These governance and compliance enhancements, which the Company has implemented, shall remain in effect for five years. No stockholder objected to either the settlement or the proposed fee award at the settlement hearing on February 9, 2018. The Court approved the settlement and entered a final order and judgment on February 9, 2018.

#### Other

The Company's operations are subject to tax in various domestic and international jurisdictions and as a matter of course, the Company is regularly audited by federal, state and foreign tax authorities. The Company believes it has appropriately accrued for the expected outcome of all pending tax matters and does not currently anticipate that the ultimate resolution of pending tax matters will have a material adverse effect on its consolidated financial condition, future results of operations or liquidity.



## ITEM 1A. RISK FACTORS

Prospective investors should consider carefully the risk factors set forth below before making an investment in the Company's securities.

### Risks related to transactions

#### Disney Transaction

The Disney Transaction may cause disruption in the Company's business.

On December 13, 2017, the Company entered into the Merger Agreement with Disney, pursuant to which the Company will, after completing the Separation and Distribution of New Fox, become a wholly-owned subsidiary of Disney (see Note 2 – Acquisitions, Disposals and Other Transactions to the accompanying Unaudited Consolidated Financial Statements of Twenty-First Century Fox under the heading “Disney Transaction/Distribution of New Fox” for further details). The Merger Agreement generally requires the Company to operate its business in the ordinary course pending consummation of the proposed merger and restricts the Company, without Disney's consent, from taking certain specified actions until the Disney Transaction is consummated or the Merger Agreement is terminated, including making certain acquisitions and divestitures, entering into certain contracts, incurring certain indebtedness and expenditures, paying dividends in excess of certain thresholds, and repurchasing or issuing securities outside of existing equity award programs. These restrictions may affect the Company's ability to execute its business strategies and attain its financial and other goals and may impact its financial condition, results of operations and cash flows.

In connection with the pending Disney Transaction, current and prospective employees of the Company may experience uncertainty about their future roles with the Company (and Disney) or New Fox following the consummation of the Disney Transaction, which may materially adversely affect the ability of the Company to attract, retain and motivate key personnel while the Disney Transaction is pending. Despite the Company's retention planning and programs that the Company has and will implement, key employees may depart because of issues relating to the uncertainty and difficulty of integration with Disney and the New Fox Separation and establishment of New Fox, or a desire not to remain with the Company (and Disney) or New Fox following the consummation of the Disney Transaction. Accordingly, no assurance can be given that the Company will be able to attract and retain key employees to the same extent that the Company has been able to in the past.

The proposed Disney Transaction further could cause disruptions to the Company's business or business relationships (including the business to be conducted by, and business relationships of, New Fox after the consummation of the transactions), which could have an adverse impact on the Company's businesses, financial condition, results of operations or prospects. In addition, the risk, and adverse effect, of such disruptions could be exacerbated by a delay in the consummation of the Disney Transaction or a termination of the Merger Agreement. Parties with which the Company has business relationships may experience uncertainty as to the future of such relationships and may delay or defer certain business decisions, seek alternative relationships with third parties or seek to alter their present business relationships with the Company. Parties with whom the Company otherwise may have sought to establish business relationships may seek alternative relationships with third parties.

The pursuit of the proposed Disney Transaction and the preparation for both the integration with Disney and the establishment of New Fox may place a significant burden on the Company's management and internal resources. The diversion of management's attention away from day-to-day business concerns could adversely affect the Company's financial results.

The Company has incurred and expects to continue to incur significant costs, expenses and fees for professional services and other transaction costs in connection with the Disney Transaction. The substantial majority of these costs

will be non-recurring expenses relating to the Disney Transaction, including costs relating to the New Fox Separation, and many of these costs are payable regardless of whether or not the Disney Transaction is consummated. The Company also could be subject to litigation related to the proposed Disney Transaction, which could result in significant costs and expenses. Even if the proposed Disney Transaction is not consummated, these risks may materialize and may adversely affect the Company's businesses, financial condition, financial results and stock price.

Failure to consummate the Disney Transaction in a timely manner or at all could negatively impact the market price of the Company's common stock, as well as the Company's future business and its financial condition, results of operations and cash flows.

The Company currently anticipates the Disney Transaction will be consummated within 12-18 months after December 13, 2017, but it cannot be certain when or if the conditions for the Disney Transaction will be satisfied or (if permissible under applicable law) waived. The Disney Transaction cannot be consummated until the conditions to closing are satisfied or (if permissible under applicable law) waived, including (i) the adoption of the Merger Agreement by the requisite vote of the Company's stockholders and the approval of the stock issuance by the requisite vote of Disney stockholders, (ii) receipt of certain required governmental approvals and consents, (iii) receipt by the Company of a surplus and solvency opinion with respect to the New Fox Separation and the cash dividend in connection with the Disney Transaction, (iv) effectiveness of registration statements with respect to the New Fox Distribution and the issuance of Disney shares in connection with the Disney Transaction, (v) authorization of Disney and New Fox shares for listing on NYSE or NASDAQ, as applicable, (vi) the consummation of the New Fox Separation and Distribution, (vii) receipt of a tax ruling from the Australian Taxation Office, (viii) receipt of certain tax opinions by each of the Company and Disney with respect to the treatment of the transactions under U.S. and Australian tax laws, including a legal opinion on the tax-free treatment of the Disney Transaction to the Company's shareholders for U.S. federal income tax purposes and (ix) the accuracy of the representations and warranties made by the Company or Disney, as applicable, in the Merger Agreement. The obligation of Disney to consummate the Disney Transaction is also subject to, among other conditions, the absence of regulatory authorities requiring Disney to take certain actions.

The satisfaction of the required conditions could delay the consummation of the Disney Transaction for a significant period of time or prevent it from occurring. Further, there can be no assurance that the conditions to the closing of the Disney Transaction will be satisfied or waived or that the Disney Transaction will be consummated.

In the event that the Disney Transaction is not consummated for any reason, (i) the holders of the Company's common stock will not receive any consideration for their shares of the Company's common stock in connection with the proposed Disney Transaction and (ii) the New Fox Separation and Distribution of New Fox will not occur and the holders of the Company's common stock will not receive shares in New Fox. Instead, the Company will remain an independent public company and holders of the Company's common stock will continue to own their shares of the Company's common stock.

Additionally, if the proposed Disney Transaction is not consummated in a timely manner or at all, the Company's ongoing business may be adversely affected as follows:

- the Company may experience negative reactions from financial markets and the stock price could decline;
- it may experience negative reactions from employees, customers, suppliers or other third parties;
- management's focus would have been diverted from pursuing other opportunities that could have been beneficial to the Company; and
- the Company's costs of pursuing the Disney Transaction may be higher than anticipated and, in any event, would be borne entirely by the Company.

If the Disney Transaction is not consummated, there can be no assurance that these risks will not materialize and will not materially adversely affect the Company's stock price, business, financial conditions, results of operations or cash flows. In addition, 21CF may be required, under certain circumstances, to pay Disney a termination fee equal to approximately \$1.5 billion.

In order to consummate the Disney Transaction, Disney and the Company must obtain certain governmental approvals, and if such approvals are not granted or are granted with conditions, consummation of the Disney



Transaction may be jeopardized or the anticipated benefits of the Disney Transaction could be reduced.

Although Disney and the Company have agreed to use reasonable best efforts, subject to certain limitations, to make certain governmental filings and obtain the required governmental approvals or expiration or earlier termination of applicable waiting periods, as the case may be, there can be no assurance that the applicable waiting periods will expire or be terminated or that the applicable approvals will be obtained. As a condition to approving the Disney Transaction, governmental authorities may impose conditions, terms, obligations or restrictions or require divestitures or place restrictions on the conduct of the combined company's business after consummation of the Disney Transaction, including those which Disney may not be required to accept pursuant to the terms of the Merger Agreement. There can be no

assurance that regulators will not impose conditions, terms, obligations or restrictions and that such conditions, terms, obligations or restrictions will not have the effect of delaying or preventing consummation of the Disney Transaction, imposing additional material costs on or materially limiting the revenues of the combined company following the Disney Transaction, or otherwise adversely affecting, including to a material extent, the combined company's businesses and results of operations after consummation of the Disney Transaction. If the Company or Disney is required to divest assets or businesses, there can be no assurance that the Company or Disney will be able to negotiate such divestitures expeditiously or on favorable terms or that the governmental authorities will approve the terms of such divestitures. The Company can provide no assurance that these conditions, terms, obligations or restrictions will not result in the abandonment of the Disney Transaction.

The Merger Agreement contains provisions that could discourage a potential competing acquirer of the Company.

The Merger Agreement contains "no shop" provisions that, subject to limited exceptions, restrict the Company's ability to solicit, initiate, or knowingly encourage or facilitate competing third-party proposals for the acquisition of the Company's stock or assets. In addition, before the Company's Board of Directors withdraws, qualifies or modifies its recommendation of the proposed merger with Disney or terminates the Merger Agreement to enter into a superior proposal, Disney generally has an opportunity to offer to modify the terms of the proposed Disney Transaction. In certa