

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 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 September 30, 2016

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 001-35769



**NEWS CORPORATION**

(Exact Name of Registrant as Specified in its Charter)

**NEWS CORPORATION**  
**FORM 10-Q**  
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**NEWS CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Unaudited; millions, except per share amounts)

	Notes	For the three months ended September 30,	
		2016	2015
Revenues:			
Advertising .....		\$ 670	\$ 735
Circulation and subscription .....		621	639
Consumer .....		374	392
Real estate .....		172	145
Other .....		128	103
		<u>1,965</u>	<u>2,014</u>
Total revenues .....		1,965	2,014
Operating expenses .....		(1,157)	(1,199)
Selling, general and administrative .....		(678)	(650)
Depreciation and amortization .....		(120)	(121)
Restructuring charges .....	4	(20)	(17)
Equity (losses) earnings of affiliates .....	5	(15)	8
Interest, net .....		7	12
Other, net .....	14	17	5
		<u>(1)</u>	<u>52</u>
(Loss) income from continuing operations before income tax benefit .....		(1)	52
Income tax benefit .....	12	1	91
		<u>—</u>	<u>143</u>
Income from continuing operations .....		—	143
Income from discontinued operations, net of tax .....	3	—	46
		<u>—</u>	<u>189</u>
Net income .....		—	189
Less: Net income attributable to noncontrolling interests .....		(15)	(14)
		<u>\$ (15)</u>	<u>\$ 175</u>
Net (loss) income attributable to News Corporation stockholders .....		\$ (15)	\$ 175
Basic and diluted (loss) earnings per share: .....	9		
(Loss) income from continuing operations available to News Corporation stockholders per share .....		\$ (0.03)	\$ 0.22
Income from discontinued operations available to News Corporation stockholders per share .....		<u>—</u>	<u>0.08</u>
Net (loss) income available to News Corporation stockholders per share .....		<u>\$ (0.03)</u>	<u>\$ 0.30</u>

The accompanying notes are an integral part of these unaudited consolidated financial statements.

**NEWS CORPORATION**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
(Unaudited; millions)

	For the three months ended September 30,	
	2016	2015
Net income .....	\$ —	\$ 189
Other comprehensive income (loss):		
Foreign currency translation adjustments .....	56	(445)
Unrealized holding losses on securities <sup>(a)</sup> .....	(26)	(25)
Benefit plan adjustments <sup>(b)</sup> .....	11	15
Share of other comprehensive income from equity affiliates <sup>(c)</sup> .....	2	5
Other comprehensive income (loss) .....	<u>43</u>	<u>(450)</u>
Comprehensive income (loss) .....	43	(261)
Less: Net income attributable to noncontrolling interests .....	(15)	(14)
Less: Other comprehensive (income) loss attributable to noncontrolling interests .....	<u>(2)</u>	<u>7</u>
Comprehensive income (loss) attributable to News Corporation stockholders .....	<u>\$ 26</u>	<u>\$(268)</u>

- (a) Net of income tax benefit of \$10 million and \$12 million for the three months ended September 30, 2016 and 2015, respectively.
- (b) Net of income tax expense of \$3 million and \$4 million for the three months ended September 30, 2016 and 2015, respectively.
- (c) Net of income tax expense of \$1 million and \$2 million for the three months ended September 30, 2016 and 2015, respectively.

The accompanying notes are an integral part of these unaudited consolidated financial statements.

**NEWS CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
(Millions, except share and per share amounts)

	Notes	<u>As of</u> <u>September 30, 2016</u> (unaudited)	<u>As of</u> <u>June 30, 2016</u> (audited)
<b>Assets:</b>			
Current assets:			
Cash and cash equivalents .....		\$	

**NEWS CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited; millions)

	Notes	<u>For the three months ended September 30,</u>	
		<u>2016</u>	<u>2015</u>
<b>Operating activities:</b>			
Net income		\$ —	\$ 189
Less: Income from discontinued operations, net of tax		—	46
Income from continuing operations		—	143
Adjustments to reconcile income from continuing operations to cash (used in) provided by operating activities:			
Depreciation and amortization		120	121
Equity losses (earnings) of affiliates	5	15	(8)
Other, net	14	(17)	(5)
Deferred income taxes and taxes payable	12	(35)	(109)
Change in operating assets and liabilities, net of acquisitions:			
Receivables and other assets		(64)	(94)
Inventories, net		(16)	30
Accounts payable and other liabilities		(258)	74
Pension and postretirement benefit plans		(13)	(11)
Net cash (used in) provided by operating activities from continuing operations		<u>(268)</u>	<u>141</u>
<b>Investing activities:</b>			
Capital expenditures		(49)	(63)
Changes in restricted cash for Wireless Group acquisition		315	—
Acquisitions, net of cash acquired		(283)	(16)
Investments in equity affiliates and other		(10)	(14)
Proceeds from dispositions		24	2
Other		(8)	5
Net cash used in investing activities from continuing operations		<u>(11)</u>	<u>(86)</u>
<b>Financing activities:</b>			
Repayment of borrowings acquired in the Wireless Group acquisition		(23)	—
Repurchase of shares		—	(15)
Dividends paid		(18)	(16)
Other, net		(18)	(6)
Net cash used in financing activities from continuing operations		<u>(59)</u>	<u>(37)</u>
Net (decrease) increase in cash and cash equivalents from continuing operations		(338)	18
Net decrease in cash and cash equivalents from discontinued operations		(3)	(35)
Cash and cash equivalents, beginning of period		1,832	1,951
Exchange movement on opening cash balance		8	(36)
Cash and cash equivalents, end of period		<u>\$1,499</u>	<u>\$1,898</u>

The accompanying notes are an integral part of these unaudited consolidated financial statements.

**NEWS CORPORATION**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION**

## NEWS CORPORATION

### NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

#### *Recently issued accounting pronouncements*

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, “Revenue from Contracts with Customers (Topic 606)” (“ASU 2014-09”). ASU 2014-09 removes inconsistencies and differences in existing revenue requirements between GAAP and International Financial Reporting Standards (“IFRS”) and requires a company to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. Once effective, ASU 2014-09 can be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initial adoption recognized at the date of initial application. In March 2016, the FASB issued ASU 2016-08, “Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)” (“ASU 2016-08”). The amendments in ASU 2016-08 clarify the implementation guidance on principal versus agent considerations. In April 2016, the FASB issued ASU 2016-10, “Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing” (“ASU 2016-10”). The amendments in ASU 2016-10 clarify aspects relating to the identification of performance obligations and improve the operability and understandability of the licensing implementation guidance. In May 2016, the FASB issued ASU 2016-12, “Update 2016-12—Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients” (“ASU 2016-12”). The amendments in ASU 2016-12 address certain issues identified on



**NEWS CORPORATION**

## NEWS CORPORATION

### NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

these fair values could potentially result in an adjustment to the goodwill recorded for this transaction. Wireless Group's results are included within the News and Information Services segment, and it is considered a separate reporting unit for purposes of the Company's annual goodwill impairment review.

#### *Fiscal 2016*

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In July 2015, the Company acquired Checkout 51 Mobile Apps ULC ("Checkout 51") for approximately \$13 million in cash at closing and approximately \$10 million in deferred cash consideration which was paid during fiscal 2016. Checkout 51 is a data-driven digital incentives company that provides News America Marketing with a leading receipt recognition mobile app which enables packaged goods companies and brands to reach consumers with highly personalized marketing campaigns. Checkout 51's results are included within the Company's News and Information Services segment.

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On September 30, 2015, the Company acquired Unruly Holdings Limited ("Unruly") for approximately £60 million (approximately \$90 million) in cash and up to £56 million (approximately \$86 million) in future cash consideration related to payments primarily contingent upon the achievement of certain performance objectives. As a result of the acquisition, the Company recognized a liability of approximately \$40 million related to the contingent consideration. The fair value of the contingent consideration was estimated by applying a probability-weighted income approach. In accordance with Accounting Standards Codification (ASC) 350, "Intangibles—Goodwill and Other" ("ASC 350"), \$43 million of the purchase price has been allocated to acquired technology with a weighted-average useful life of 7 years, \$21 million has been allocated to customer relationships and tradenames with a weighted-average useful life of 6 years and \$68 million has been allocated to goodwill. Unruly is a leading global video distribution platform that is focused on delivering branded video advertising across websites and mobile devices. Unruly's results of operations are included within the News and Information Services segment, and it is considered a separate reporting unit for purposes of the Company's annual goodwill impairment review.

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In February 2016, the Company acquired a 92% interest in DIAKRIT International Limited ("DIAKRIT") for approximately \$40 million in cash. The Company also has the option to purchase, and the minority shareholders have the option to sell to the Company, the remaining 8% in two tranches over the next six years at fair value. DIAKRIT is a digital visualization solutions company that helps homeowners see the potential in their future living environment with digital visualization solutions that enable them to plan, furnish and decorate their dream home, while also helping agents and developers generate more buyer inquiries and accelerate their property sale processes. DIAKRIT's results are included within the Digital Real Estate Services segment, and it is considered a separate reporting unit for purposes of the Company's annual goodwill impairment review.

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In February 2016, REA Group Limited ("REA Group"), in which the Company holds a 61.6% interest, increased its investment in iProperty Group Limited ("iProperty") from 22.7% to approximately 86.9% for A\$482 million in cash (approximately \$340 million). The remaining 13.1% not currently owned will become mandatorily redeemable during fiscal 2018. As a result, the Company recognized a liability of approximately \$76 million, which reflects the present value of the amount expected to be paid for the remaining interest based on the

**NEWS CORPORATION**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

formula specified in the acquisition agreement. The acquisition was funded primarily with the proceeds from borrowings under an unsecured syndicated revolving loan facility (the “REA Facility”). (Refer to Note 6—Borrowings). The acquisition of iProperty extends REA Group’s market leading business in Australia to attractive markets throughout Southeast Asia. iProperty is a subsidiary of REA Group, and its results are included within the Digital Real Estate Services segment.

In accordance with ASC 805 “Business Combinations,” REA Group recognized a gain of \$29 million resulting from the revaluation of its previously held equity interest in iProperty in Other, net in the Statement of Operations for the fiscal year ended June 30, 2016. The total fair value of iProperty at the acquisition date is set forth below (in millions):

Cash paid for iProperty equity .....	\$ 340
Deferred consideration .....	76
Total consideration .....	416
Fair value of previously held iProperty investment .....	120
Total fair value .....	\$ 536

Under the purchase method of accounting, the total consideration is allocated to net tangible and intangible assets based upon the fair value as of the date of completion of the acquisition. The excess of the total consideration over the fair value of the net tangible and intangible assets acquired was recorded as goodwill. The allocation is as follows (in millions):

Assets Acquired:	
Goodwill .....	\$ 498
Intangible assets .....	72
Net Liabilities .....	(34)
Net assets acquired .....	\$ 536

The acquired intangible assets primarily relate to tradenames which have an indefinite life.

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In May 2016, REA Group acquired Flatmates.com.au Pty Ltd (“Flatmates”) for \$19 million in cash at closing and up to \$15 million in future cash consideration related to payments contingent upon the achievement of certain performance objectives. Flatmates operates the Flatmates.com.au website, which is a market leading share accommodation site in Australia. The acquisition enhances REA Group’s Australian product offering by extending its reach into the quickly growing share accommodation business. Flatmates is a subsidiary of REA Group, and its results since acquisition are included within the Digital Real Estate Services segment.

A

In June 2016, the Company entered into an agreement to purchase Australian Regional Media (“ARM”) from APN News and Media Limited (“APN”) for approximately \$30 million. ARM operates a portfolio of regional print assets and websites and extends the reach of the Australian newspaper business to new customers in new geographic regions. The acquisition remains subject to regulatory approval.

## NEWS CORPORATION

### NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE 3. DISCONTINUED OPERATIONS

During the first quarter of fiscal 2016, management approved a plan to dispose of the Company's digital education business. As a result of the plan and the discontinuation of further significant business activities in the Digital Education segment, the assets and liabilities of this segment were classified as held for sale and the results of operations have been classified as discontinued operations for all periods presented in accordance with ASC 205-20, "Discontinued Operations."

In the first quarter of fiscal 2016, the Company recognized a pre-tax non-cash impairment charge of \$76 million reflecting a write down of the digital education business to its fair value less costs to sell. The impairment charge is included within Loss before income tax benefit in the table below. In addition, the Company recognized a tax benefit of \$151 million upon reclassification of the Digital Education segment to discontinued operations.

The following table summarizes the results of operations from the discontinued segment:

**For the three months**



## NEWS CORPORATION

### NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

date of July 15, 2027, with interest payable on June 30 each year and at maturity. On June 22, 2016, Foxtel and Foxtel's shareholders agreed to modify the terms of the loan receivable to reduce the interest rate from 12% to 10.5%, to more closely align with current market rates. Upon maturity, the principal advanced will be repayable.

- (c) Available-for-sale securities primarily include the Company's investments in APN and The Rubicon Project, Inc. During fiscal 2016, the Company participated in an entitlement offer to maintain its 14.99% interest in APN for \$20 million. APN operates a portfolio of Australian radio and outdoor media assets.
- (d) Cost method investments primarily include the Company's investment in SEEKAsia Limited and certain investments in China.

The Company measures the fair market values of available-for-sale investments as Level 1 financial instruments

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**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

Summarized financial information for Foxtel, presented in accordance with U.S. GAAP, was as follows:

	<b>For the three months ended September 30,</b>	
	<b>2016</b>	<b>2015</b>
	<b>(in millions)</b>	
Revenues .....	\$ 618	\$ 587
Operating income <sup>(a)</sup> .....	91	85
Net income .....	16	42

<sup>(a)</sup> Includes Depreciation and amortization of \$52 million and \$55 million for the three months ended September 30, 2016 and 2015, respectively. Operating income before depreciation and amortization was \$143 million and \$140 million for the three months ended September 30, 2016 and 2015, respectively.

For the three months ended September 30, 2016, Foxtel's revenues increased \$31 million, or 5%, primarily as a result of the positive impact of foreign currency fluctuations as revenues increased modestly in local currency.

## NEWS CORPORATION

### NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

3.25 to 1.0 and an interest coverage ratio of not less than 3.0 to 1.0. As of September 30, 2016, REA Group was in compliance with all of the applicable debt covenants.

#### *Revolving Credit Facility*

The Company's Credit Agreement (as amended, the "Credit Agreement") provides for an unsecured \$650 million revolving credit facility (the "Facility") that can be used for general corporate purposes. The Facility has a sublimit of \$100 million available for issuances of letters of credit. Under the Credit Agreement, the Company may request increases in the amount of the Facility up to a maximum amount of \$900 million.

In October 2015, the Company entered into an amendment to the Credit Agreement (the "Amendment") which, among other things, extended the original term of the Facility by two years and lowered the commitment fee payable by the Company. As a result of the Amendment, the lenders' commitments now terminate on October 23, 2020, and any borrowings will be due at that time. The Company may request that the commitments be extended under certain circumstances as set forth in the Credit Agreement for up to two additional one-year periods.

The Credit Agreement contains customary affirmative and negative covenants and events of default, with customary exceptions, including limitations on the ability of the Company and its subsidiaries to engage in transactions with affiliates, incur liens, merge into or consolidate with any other entity, incur subsidiary debt or dispose of all or substantially all of its assets or all or substantially all of the stock of its subsidiaries. In addition, the Credit Agreement requires the Company to maintain an adjusted operating income leverage ratio of not more than 3.0 to 1.0 and an interest coverage ratio of not less than 3.0 to 1.0. If any of the events of default occur and are not cured within applicable grace periods or waived, any unpaid amounts under the Credit Agreement may be declared immediately due and payable. As of September 30, 2016, the Company was in compliance with all of the applicable debt covenants.

Interest on borrowings under the Facility is based on either (a) a Eurodollar Rate formula or (b) the Base Rate formula, each as set forth in the Credit Agreement. The applicable margin and the commitment fee are based on the pricing grid in the Credit Agreement, which varies based on the Company's adjusted operating income leverage ratio. As of September 30, 2016, the Company was paying a commitment fee of 0.225% on any undrawn balance and an applicable margin of 0.50% for a Base Rate borrowing and 1.50% for a Eurodollar Rate borrowing.

As of the date of this filing, the Company has not borrowed any funds under the Facility.



**NEWS CORPORATION**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 7. EQUITY**

The following table summarizes changes in equity:

	For the three months ended September 30,					
	2016			2015		
	News Corporation stockholders	Noncontrolling Interests	Total Equity	News Corporation stockholders	Noncontrolling Interests	Total Equity
	(in millions)					
Balance, beginning of period . . . . .	\$11,564	\$218	\$11,782	\$11,945	\$171	\$12,116
Net (loss) income . . . . .	(15)	15	—	175	14	189

## **NEWS CORPORATION**

### **NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

depend on many factors, including the Company's financial condition, earnings, capital requirements and debt facility covenants, other contractual restrictions, as well as legal requirements, regulatory constraints, industry practice, market volatility and other factors that the Board of Directors deems relevant.

#### **NOTE 8. EQUITY BASED COMPENSATION**

Employees of the Company participate in the News Corporation 2013 Long-Term Incentive Plan (the "2013 LTIP") under which equity-based compensation, including stock options, performance stock units ("PSUs"), restricted stock awards, restricted stock units ("RSUs") and other types of awards can be granted. The Company has the ability to award up to 30 million shares of Class A Common Stock under the terms of the 2013 LTIP. Additionally, in connection with the acquisition of Move, the Company assumed Move's equity incentive plans and substantially all of the awards outstanding under such plans.

**NEWS CORPORATION**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 9. EARNINGS PER SHARE**

The following tables set forth the computation of basic and diluted earnings per share under ASC 260, "Earnings per Share":

## NEWS CORPORATION

### NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The Company establishes an accrued liability for legal claims when it 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. Legal fees associated with litigation and similar proceedings are expensed as incurred. Except as otherwise provided below, for the contingencies disclosed for which there is at least a reasonable possibility that a loss may be incurred, the Company was unable to estimate the amount of loss or range of loss. The Company recognizes gain contingencies when the gain becomes realized or realizable.

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On February 29, 2016, the parties agreed to settle the litigation in the U.S. District Court for the Southern District of New York in which The Dial Corporation, Henkel Consumer Goods, Inc., H.J. Heinz Company, H.J. Heinz Company, L.P., Foster Poultry Farms, Smithfield Foods, Inc., HP Hood LLC and BEF Foods, Inc. alleged various claims under federal and state antitrust law against News Corporation, News America Incorporated (“NAI”), News America Marketing FSI L.L.C. (“NAM FSI”) and News America Marketing In-Store Services L.L.C. (“NAM In-Store Services” and, together with News Corporation, NAI and NAM FSI, the “NAM Group”). Under the terms of the settlement, the NAM Group agreed, among other things, to pay the plaintiffs and their attorneys approximately \$250 million, and the parties agreed to dismiss the litigation with prejudice. As required under the settlement agreement, the NAM Group delivered the proposed settlement amount into escrow during the three months ended September 30, 2016, to be held pending District Court approval. On October 31, 2016, the District Court approved the settlement, and the settlement payment will be released to the plaintiffs and their attorneys. The NAM Group also settled related claims for approximately \$30 million in February 2016.

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On November 8, 2013, Valassis Communications, Inc. (“Valassis”) initiated legal proceedings against certain of the Company’s subsidiaries alleging violations of various antitrust laws. These proceedings are described in further detail below.

- Valassis previously initiated an action against NAI, NAM FSI and NAM In-Store Services (collectively, the “NAM Parties”), captioned Valassis Communications, Inc. v. News America Incorporated, et al., No. 2:06-cv-10240 (E.D. Mich.) (“Valassis I”), alleging violations of federal antitrust laws, which was settled in February 2010. On November 8, 2013, Valassis filed a motion for expedited discovery in the previously settled case based on its belief that defendants had engaged in activities prohibited under an order issued by the U.S. District Court for the Eastern District of Michigan in connection with the parties’ settlement, which motion was granted by the magistrate judge.

Valassis subsequently filed a Notice of Violation of the order issued by the District Court in Valassis I. The Notice contained allegations that were substantially similar to the allegations Valassis made in Valassis II, described below, and sought treble damages, injunctive relief and attorneys’ fees. The Notice also re-asserted claims of unlawful bundling and tying which the magistrate judge had previously recommended be dismissed from Valassis II on the grounds that such claims could only be brought before a panel of antitrust experts previously appointed in Valassis I (the “Antitrust Expert Panel”). On March 2, 2015, the NAM Parties filed a motion to refer the Notice to the Antitrust Expert Panel or, in the alternative, strike the Notice. The District Court granted the NAM Parties’ motion in part on March





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**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 11. PENSION AND OTHER POSTRETIREMENT BENEFITS**

The Company provides pension, postretirement health care, defined contribution and medical benefits primarily in the U.S., U.K. and Australia to the Company's eligible employees and retirees. The Company funds amounts, at a minimum, in accordance with statutory requirements for all plans. Plan assets consist principally of common stocks, marketable bonds and government securities.

The amortization of amounts related to unrecognized prior service (credits) and deferred losses were reclassified out of other comprehensive income as a component of net periodic benefit costs. The components of net periodic benefits costs were as follows:

	<u>Pension benefits</u>				<u>Postretirement benefits</u>	
	<u>Domestic</u>		<u>Foreign</u>			
	<u>For the three months ended September 30,</u>					
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	(in millions)					
Service cost benefits earned during the period	\$ —	\$ —	\$ 2	\$ 2	\$ —	\$ —
Interest costs on projected benefit obligations	3	4	7	11	1	1
Expected return on plan assets	(4)	(5)	(14)	(16)	—	—
Amortization of deferred losses	1	1	4	4	—	—
Amortization of prior service (credits)	—	—	—	—	(1)	(1)
Settlements, curtailments and other	—	—	—	(1)	—	—
Net periodic benefit costs	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (1)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

During the three months ended September 30, 2016 and 2015, the Company contributed approximately \$12 million and \$11 million, respectively, to its various pension and postretirement plans.

**NEWS CORPORATION**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

The Company's tax returns are subject to on-going review and examination by various tax authorities. Tax authorities may not agree with the treatment of items reported in the Company's tax returns, and therefore the outcome of tax reviews and examinations can be unpredictable. The Company believes it has appropriately



## NEWS CORPORATION

### NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

channels distributed via cable, satellite and IP, several interactive viewing applications and broadcast rights to live sporting events in Australia including: National Rugby League, the domestic football league, international cricket, Australian Rugby Union and various motorsports programming.

- **Other**—The Other segment consists primarily of general corporate overhead expenses, the corporate Strategy and Creative Group and costs related to the U.K. Newspaper Matters. The Company's corporate Strategy and Creative Group was formed to identify new products and services across its businesses to increase revenues and profitability and to target and assess potential acquisitions, investments and dispositions.

Segment EBITDA is defined as revenues less operating expenses, and selling, general and administrative expenses. Segment EBITDA does not include: Depreciation and amortization, restructuring charges, equity (losses) earnings of affiliates, interest, net, other, net, income tax benefit and net income attributable to noncontrolling interests. Segment EBITDA may not be comparable to similarly titled measures reported by other companies, since companies and investors may differ as to what items should be included in the calculation of Segment EBITDA.

Segment EBITDA is the primary measure used by the Company's chief operating decision maker to evaluate the performance of and allocate resources within the Company's businesses. Segment EBITDA provides management, investors and equity analysts with a measure to analyze the operating performance of each of the Company's business segments and its enterprise value against historical data and competitors' data, although historical results may not be indicative of future results (as operating performance is highly contingent on many factors, including customer tastes and preferences).

**NEWS CORPORATION**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

Total Segment EBITDA is a non-GAAP measure and should be considered in addition to, not as a substitute for, net (loss) 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 and restructuring charges, which are significant components in assessing the Company's financial performance. The Company believes that information about Total Segment EBITDA allows users of its Consolidated Financial Statements to evaluate changes in the operating results of the Company separate from non-operational factors that affect net income, thus providing insight into both operations and the other factors that affect reported results. The following table reconciles Total Segment EBITDA to income from continuing operations.

	<b>For the three months ended September 30,</b>	
	<b>2016</b>	<b>2015</b>
	<b>(in millions)</b>	
Revenues:		
News and Information Services . . . . .	\$1,222	\$1,290
Book Publishing \$1.....C29.2(T)5Book Publishing	1,075	1,290
Book Publishing \$1.....C29.2(T)5Book Publishing		

**NEWS CORPORATION**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

	<u>As of</u> <u>September 30, 2016</u>	<u>As of</u> <u>June 30, 2016</u>
	(in millions)	
Goodwill and intangible assets, net:		
News and Information Services .....	\$2,987	\$2,651
Book Publishing .....	853	869
Digital Real Estate Services .....	1,513	1,499
Cable Network Programming .....	913	898
Other .....	<u>4</u>	<u>4</u>
Total goodwill and intangible assets, net .....	<u>\$6,270</u>	<u>\$5,921</u>

**NOTE 14. ADDITIONAL FINANCIAL INFORMATION**

***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. In determining the allowance for returns, management analyzes historical returns, current economic trends and changes in customer demand and acceptance of the Company's products. Based on this information, management reserves a certain portion of revenues that provide the customer with the right of return. The allowance for doubtful accounts is estimated based on historical experience, receivable aging, current economic trends and specific identification of certain receivables that are at risk of not being collected.

Receivables, net consist of:

<u>As of</u> <u>September 30, 2016</u>	<u>As of</u>
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**NEWS CORPORATION**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

- (b) Relates to costs incurred in connection with the U.K. Newspaper Matters which will be indemnified by 21st



ended September 30, 2015 that the Company believes are important in understanding its financial condition and results of operations or to disclose known trends.

- ***Results of Operations***—This section provides an analysis of the Company’s results of operations for the three months ended September 30, 2016 and 2015. This analysis is presented on both a consolidated

- **Other**—The Other segment consists primarily of general corporate overhead expenses, the corporate Strategy and Creative Group and costs related to the U.K. Newspaper Matters (as defined in Note 10 to the Consolidated Financial Statements). The Company's corporate Strategy and Creative Group was formed to identify new products and services across its businesses to increase revenues and profitability and to target and assess potential acquisitions, investments and dispositions.

### **News and Information Services**

segment are significantly affected by the timing of releases and the number of its books in the marketplace. The book publishing marketplace is subject to increased periods of demand during the end-of-year holiday season in its main operating geographies. This marketplace is highly competitive and continues to change due to technological developments and other factors. Each book is a separate and distinct product, and its financial success depends upon many factors, including public acceptance.

Major new title releases represent a significant portion of the Book Publishing segment's sales throughout the fiscal year. Print-based consumer books are generally sold on a fully returnable basis, resulting in the return of unsold books. In the domestic and international markets, the Book Publishing segment is subject to global trends and local economic conditions. Operating expenses for the Book Publishing segment include costs related to paper, printing, authors' royalties, editorial, promotional, art and design expenses. Selling, general and administrative expenses include salaries, employee benefits, rent and other routine overhead.

### **Digital Real Estate Services**

The Digital Real Estate Services segment generates revenue through the sale of real estate listing products to agents, brokers and developers and display advertising on its residential real estate and commercial property sites and also licenses certain professional software products on a subscription basis. Significant expenses associated with these sites and software solutions include development costs, advertising and promotional expenses, hosting and support services, salaries, employee benefits and other routine overhead expenses.

Consumers are increasingly turning to the Internet and mobile devices for real estate information. The Digital Real Estate Services segment's success depends on its continued innovation to provide products and services that make its websites and mobile applications useful for consumers and real estate and mortgage professionals and attractive to its advertisers.

### **Cable Network Programming**

The Cable Network Programming segment consists of FOX SPORTS Australia, which offers the following seven channels in high definition: FOX SPORTS 1, FOX SPORTS 2, FOX SPORTS 3, FOX SPORTS 4, FOX SPORTS 5, FOX FOOTY and FOX SPORTS NEWS. Revenue is primarily derived from monthly affiliate fees received from pay-tv providers (mainly Foxtel) based on the number of subscribers.

FOX SPORTS Australia competes primarily with ESPN, beIN SPORTS, the Free-To-Air ("FTA") channels and certain telecommunications companies in Australia.

The most significant operating expenses of the Cable Network Programming segment are the acquisition and production expenses related to programming and the expenses related to operating the technical facilities of the broadcast operations. The expenses associated with licensing programming rights are recognized during the applicable season or event, which can cause results at the Cable Network Programming segment to fluctuate based on the timing and mix of the Company's local and international sports programming. Other expenses include marketing and promotional expenses related to improving the market visibility and awareness of the channels and their programming. Additional expenses include salaries, employee benefits, rent and other routine overhead expenses.

### **Other**

The Other segment primarily consists of general corporate overhead expenses, the corporate Strategy and Creative Group and costs related to the U.K. Newspaper Matters. The Company's corporate Strategy and Creative Group was formed to identify new products and services across the Company's businesses to increase revenues and profitability and to target and assess potential acquisitions, investments and dispositions.



## **OTHER BUSINESS DEVELOPMENTS**

In September 2016, the Company completed its acquisition of Wireless Group plc (“Wireless Group”) for a purchase price of 315 pence per share in cash, or approximately £220 million (approximately \$285 million) in the aggregate, plus \$23 million of assumed debt which was repaid subsequent to closing. Wireless Group operates talkSPORT, the leading sports radio network in the U.K., and a portfolio of radio stations in the U.K. and Ireland. The acquisition broadens the Company’s range of services in the U.K., Ireland and internationally, and the Company expects to closely align Wireless Group’s operations with those of *and m*. Wireless Group’s results are included within the News and Information Services segment, and it is considered a separate reporting unit for purposes of the Company’s annual goodwill impairment review.

On September 30, 2015, the Company acquired Unruly Holdings Limited (“Unruly”) for approximately £60 million (approximately \$90 million) in cash and up to £56 million (approximately \$86 million) in future cash consideration related to payments primarily contingent upon the achievement of certain performance objectives. Unruly is a leading global video distribution platform that is focused on delivering branded video advertising across websites and mobile devices. Unruly’s results of operations are included within the News and Information Services segment, and it is considered a separate reporting unit for purposes of the Company’s annual goodwill impairment review.

In July 2015, the Company acquired Checkout 51 Mobile Apps ULC (“Checkout 51”) for approximately \$13 million in cash at closing and approximately \$10 million in deferred cash consideration which was paid during fiscal 2016. Checkout 51 is a data-driven digital incentives company that provides News America Marketing with a leading receipt recognition mobile app which enables packaged goods companies and brands to reach consumers with highly personalized marketing campaigns. Checkout 51’s results are included within the News and Information Services segment.

## RESULTS OF OPERATIONS

### *Results of Operations—For the three months ended September 30, 2016 versus the three months ended September 30, 2015*

The following table sets forth the Company’s operating results for the three months ended September 30, 2016 as compared to the three months ended September 30, 2015.

	<b>For the three months ended September 30,</b>			
	<b>2016</b>	<b>2015</b>	<b>Change</b>	<b>% Change</b>
	<b>Better/(Worse)</b>			
<b>(in millions, except %)</b>				
<b>Revenues:</b>				
Advertising	\$ 670	\$ 735	\$ (65)	(9)%
Circulation and subscription	621	639	(18)	(3)%
Consumer	374	392	(18)	(5)%
Real estate	172	145	27	19 %
Other	128	103	25	24 %
<b>Total revenues</b>	<b>1,965</b>	<b>2,014</b>	<b>(49)</b>	<b>(2)%</b>
<b>Operating expenses</b>	<b>(1,157)</b>	<b>(1,199)</b>	<b>42</b>	<b>4 %</b>
Selling, general and administrative	(678)	(650)	(28)	(4)%
Depreciation and amortization	(120)	(121)	1	1 %
Restructuring charges	(20)	(17)	(3)	(18)%
Equity (losses) earnings of affiliates	(15)	8	(23)	**
Interest, net	7	12	(5)	(42)%
Other, net	17	5	12	**
<b>(Loss) income from continuing operations before income tax benefit</b>	<b>(1)</b>	<b>52</b>	<b>(53)</b>	<b>**</b>
Income tax benefit	1	91	(90)	(99)%
<b>Income from continuing operations</b>	<b>—</b>	<b>143</b>	<b>(143)</b>	<b>**</b>
Income from discontinued operations, net of tax	—	46	(46)	(100)%
<b>Net income</b>	<b>—</b>	<b>189</b>	<b>(189)</b>	<b>(100)%</b>
Less: Net income attributable to noncontrolling interests	(15)	(14)	(1)	(7)%
<b>Net (loss) income attributable to News Corporation</b>	<b>\$ (15)</b>	<b>\$ 17</b>	<b>(1)</b>	<b>(5)%</b>

**Revenues**—Revenues decreased \$49 million, or 2%, for the three months ended September 30, 2016 as compared to the corresponding period of fiscal 2016. The revenue decrease for the three months ended September 30, 2016 was mainly due to a decrease in revenues at the News and Information Services segment of \$68 million, primarily resulting from weakness in the print advertising market and the negative impact of foreign currency fluctuations, and a decrease at the Book Publishing segment of \$20 million primarily due to the absence of sales associated with *Gone with the Wind* by Harper Lee and the negative impact of foreign currency fluctuations, partially offset by higher foreign language publishing revenues. This decrease was partially offset by increased revenues at the Digital Real Estate Services segment of \$35 million due to higher revenues at both REA Group and Move. The impact of foreign currency fluctuations of the U.S. dollar against local currencies resulted in a Revenue decrease of \$36 million for the three months ended September 30, 2016 as compared to the corresponding period of fiscal 2016. The Company calculates the impact of foreign currency fluctuations for businesses reporting in currencies other than the U.S. dollar by multiplying current period results by the difference between the average quarterly exchange rates for the current year period and the average quarterly exchange rates in effect during the corresponding period of the prior year.

**Operating Expenses**—Operating expenses decreased \$42 million, or 4%, for the three months ended September 30, 2016 as compared to the corresponding period of fiscal 2016. The decrease in Operating expenses for the three months ended September 30, 2016 was mainly due to a decrease in operating expenses at the News and Information Services segment of \$41 million, primarily as a result of lower newsprint, production and distribution costs and the impact of cost savings initiatives, and at the Book Publishing segment of \$23 million due to the mix of titles. These decreases were partially offset by increased operating expenses at the Cable Network Programming segment resulting from the timing of sports programming rights costs and the negative impact of foreign currency fluctuations. The impact of foreign currency fluctuations of the U.S. dollar against local currencies resulted in an Operating expense decrease of \$11 million for the three months ended September 30, 2016 as compared to the corresponding period of fiscal 2016.

**Selling, general and administrative expenses**—Selling, general and administrative expenses increased \$28 million, or 4%, for the three months ended September 30, 2016 as compared to the corresponding period of fiscal 2016. The increase in Selling, general and administrative expenses for the three months ended September 30, 2016 was primarily due to an increase at the Digital Real Estate Services segment due mainly to higher marketing costs at REA Group and Move and at the News and Information Services segment, primarily as a result of the acquisition of Unruly and Wireless Group. The impact of foreign currency fluctuations of the U.S. dollar against local currencies resulted in a Selling, general and administrative expense decrease of \$20 million for the three months ended September 30, 2016 as compared to the corresponding period of fiscal 2016.

**Depreciation and amortization**—Depreciation and amortization expense decreased \$1 million, or 1%, for the three months ended September 30, 2016 as compared to the corresponding period of fiscal 2016. Depreciation and amortization expense decreased due to the positive impact of foreign currency fluctuations. The impact of foreign currency fluctuations of the U.S. dollar against local currencies resulted in a Depreciation and amortization expense decrease of \$2 million for the three months ended September 30, 2016 as compared to the corresponding period of fiscal 2016.

**Restructuring charges**—During the three months ended September 30, 2016 and 2015, the Company recorded restructuring charges of \$20 million and \$17 million, respectively, of which \$19 million and \$12 million, respectively, related to the News and Information Services segment. The restructuring charges recorded in the three months ended September 30, 2016 and 2015 were for employee termination benefits.

Additionally, in connection with a reorganization at Dow Jones, the Company expects to incur approximately \$50 to \$60 million in restructuring charges during the remainder of fiscal 2017. The reorganization is expected to reduce the Company's costs by approximately \$100 million on an annualized basis by the end of fiscal 2018.

**Equity (losses) earnings of affiliates**—Equity (losses) earnings of affiliates decreased \$23 million for the three months ended September 30, 2016 as compared to the three months ended September 30, 2015, primarily as a result of lower net income at Foxtel, mainly due to the \$21 million loss resulting from Foxtel management’s decision to cease Presto operations in January 2017 and higher programming costs. These decreases were partially offset by higher revenues and lower depreciation and amortization expense.

	For the three months ended September 30,			
	2016	2015	Change	% Change
(in millions, except %)				Better/(Worse)
Foxtel <sup>(a)</sup>	\$(11)	\$ 9	\$(20)	**
Other equity affiliates	(4)	(1)	(3)	**
Total Equity (losses) earnings of affiliates	<u>\$(15)</u>	<u>\$ 8</u>	<u>\$(23)</u>	<u>**</u>

\*\* not meaningful

(a) In accordance with ASC 350, the Company amortized \$19 million and \$12 million, respectively, related to excess cost over the Company’s proportionate share of its investment’s underlying net assets allocated to finite-lived intangible assets during the three months ended September 30, 2016 and 2015. Such amortization is reflected in Equity (losses) earnings of affiliates in the Statements of Operations. The increase in amortization expense recognized by the Company in the current year period was offset by a corresponding decrease in amortization expense recognized by Foxtel as certain intangible assets were fully amortized in fiscal 2016.

**Interest, net**—Interest, net decreased \$5 million for the three months ended September 30, 2016 as compared to the corresponding period of fiscal 2016, primarily due to the interest expense associated with the REA Facility.

**Other, net**

The following table sets forth the components of Other, net:

(in millions)	For the three months ended September 30,	
	2016	2015
Gain on sale of available-for-sale securities	\$ 6	\$ —
Gain on sale of equity method investments	6	—
Gain on sale of cost method investments	4	—
Other, net	<u>1</u>	<u>5</u>
Total Other, net	<u>\$ 17</u>	<u>\$ 5</u>

**Income tax benefit**—The Company’s effective tax rate for the three months ended September 30, 2016 was higher than the U.S. statutory tax rate, primarily due to non-taxable book gains, which had a greater impact on the Company’s effective tax rate for the quarter due to the Company’s low pre-tax book loss.

The Company’s effective tax rate for the three months ended September 30, 2015 was lower than the U.S. statutory tax rate primarily due to a tax benefit of approximately \$106 million related to the release of previously established valuation allowances related to certain U.S. federal net operating losses and state deferred tax assets. This benefit was recognized in conjunction with management’s plan to dispose of the Company’s digital education business as the Company expects to generate sufficient U.S. taxable income to utilize these deferred tax assets prior to expiration.

**Income from discontinued operations, net of tax**—For the three months ended September 30, 2016, the Company did not recognize any income from discontinued operations as the operations of the digital education

business were discontinued during fiscal 2016. For the three months ended September 30, 2015, the Company recognized income from discontinued operations of \$46 million, primarily due to the impact of a \$151 million tax benefit recognized upon reclassification of the Digital Education segment to discontinued operations, which more than offset the pre-tax non-cash impairment charge and operating losses recorded in the first quarter of fiscal 2016. (See Note 3—Discontinued Operations in the accompanying Consolidated Financial Statements).

**Net income**—Net income decreased \$189 million for the three months ended September 30, 2016 as compared to the corresponding period of fiscal 2016 primarily due to the \$106 million tax benefit and income from discontinued operations recognized in fiscal 2016 which did not recur in fiscal 2017, lower Total Segment EBITDA and lower equity earnings from Foxtel.

**Net income attributable to noncontrolling interests**—Net income attributable to noncontrolling interests increased by \$1 million for the three months ended September 30, 2016 as compared to the corresponding period of fiscal 2016 due to higher results at REA Group, partially offset by the negative impact of foreign currency fluctuations.

### ***Segment Analysis***

Segment EBITDA is defined as revenues less operating expenses and selling, general and administrative expenses. Segment EBITDA does not include: Depreciation and amortization, restructuring charges, equity (losses) earnings of affiliates, interest, net, other, net, income tax benefit and net income attributable to noncontrolling interests. Segment EBITDA may not be comparable to similarly titled measures reported by other companies, since companies and investors may differ as to what items should be included in the calculation of Segment EBITDA.

Segment EBITDA is the primary measure used by the Company's chief operating decision maker to evaluate the performance of and allocate resources within the Company's businesses. Segment EBITDA provides management, investors and equity analysts with a measure to analyze the operating performance of each of the Company's business segments and its enterprise value against historical data and competitors' data, although historical results may not be indicative of future results (as operating performance is highly contingent on many factors, including customer tastes and preferences).

Total Segment EBITDA is a non-GAAP measure and should be considered in addition to, not as a substitute for, net (loss) 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 and restructuring charges, which are significant components in assessing the Company's financial performance. The Company believes that information about Total Segment EBITDA allows users of its Consolidated Financial Statements to evaluate changes in the operating results of the Company separate from non-operational factors that affect net income, thus providing insight into both operations and the other factors that affect reported results. The following table reconciles Total Segment EBITDA to (loss) income from continuing operations:

	<b>For the three months ended September 30,</b>			
	<b>2016</b>	<b>2015</b>	<b>Change</b>	<b>% Change</b>
			<b>Better/(Worse)</b>	
<b>(in millions, except %)</b>				
Revenues .....	\$ 1,965	\$ 2,014	\$ (49)	(2)%
Operating expenses .....	(1,157)	(1,199)	42	4 %
Selling, general and administrative expenses .....	(678)	(650)	(28)	(4)%
Total Segment EBITDA .....	130	165	(35)	(21)%
Depreciation and amortization .....	(120)	(121)	1	1 %
Restructuring charges .....	(20)	(17)	(3)	(18)%
Equity (losses) earnings of affiliates .....	(15)	8	(23)	**
Interest, net .....	7	12	(5)	(42)%
Other, net .....	17	5	12	**
(Loss) income from continuing operations before income tax benefit ...	(1)	52	(53)	**
Income tax benefit .....	1	91	(90)	(99)%
Income from continuing operations .....	<u>\$ —</u>	<u>\$ 143</u>	<u>\$(143)</u>	<u>(100)%</u>

\*\* not meaningful

	<b>For the three months ended September 30,</b>			
	<b>2016</b>		<b>2015</b>	
<b>(in millions)</b>	<b>Revenues</b>	<b>Segment EBITDA</b>	<b>Revenues</b>	<b>Segment EBITDA</b>

Revenues at the News and Information Services segment decreased \$68 million, or 5%, for the three months

**Book Publishing** (20% of the Company's consolidated revenues in the three months ended September 30, 2016 and 2015)

	For the three months ended September 30,			
	2016	2015	Change	% Change
(in millions, except %)	Better/(Worse)			
Revenues:				
Consumer .....	\$ 374	\$ 392	\$(18)	(5)%
Other .....	15	17	(2)	(12)%
<b>Total revenues</b> .....	<b>389</b>	<b>409</b>	<b>(20)</b>	<b>(5)%</b>
Operating expenses .....	(267)	(290)	23	8 %
Selling, general and administrative .....	(74)	(77)	3	4 %
<b>Segment EBITDA</b> .....	<b>\$ 48</b>	<b>\$ 42</b>	<b>\$ 6</b>	<b>14%</b>

Revenues at the Book Publishing segment decreased \$20 million, or 5%, for the three months ended September 30, 2016 as compared to the corresponding period of fiscal 2016. The decrease was primarily due to the absence of \$32 million in revenues associated with sales of *Gone with the Wind* by Harper Lee in the prior year quarter and the negative impact of foreign currency fluctuations, partially offset by increased revenues from foreign language publishing and higher print sales due to the mix of titles. The impact of foreign currency fluctuations of the U.S. dollar against local currencies resulted in a revenue decrease of \$7 million, or 2%, for the three months ended September 30, 2016 as compared to the corresponding period of fiscal 2016. Digital sales, which consist of revenues generated through the sale of e-books and digital audio books, represented 20% of Consumer revenues during the three months ended September 30, 2016. Digital sales decreased 5% as compared to the corresponding period of fiscal 2016 due to the mix of titles as compared to the prior year quarter.

Segment EBITDA at the Book Publishing segment increased \$6 million, or 14%, for the three months ended September 30, 2016 as compared to the corresponding period of fiscal 2016. The increase was primarily due to the mix of titles as compared to the prior year quarter.

**Digital Real Estate Services** (11% and 10% of the Company's consolidated revenues in the three months ended September 30, 2016 and 2015, respectively)

	For the three months ended September 30,			
	2016	2015	Change	% Change
(in millions, except %)	Better/(Worse)			
Revenues:				
Advertising .....	\$ 34	\$ 31	\$ 3	10 %
Circulation and subscription .....	16	15	1	7 %
Real estate .....	172	145	27	19 %
Other .....	4	—	4	**
<b>Total revenues</b> .....	<b>226</b>	<b>191</b>	<b>35</b>	<b>18 %</b>
Operating expenses .....	(30)	(23)	(7)	(30)%
Selling, general and administrative .....	(129)	(111)	(18)	(16)%
<b>Segment EBITDA</b> .....	<b>\$ 67</b>	<b>\$ 57</b>	<b>\$ 10</b>	<b>18 %</b>

\*\* not meaningful

Revenues at the Digital Real Estate Services segment increased \$35 million, or 18%, for the three months ended September 30, 2016 as compared to the corresponding period of fiscal 2016. At REA Group, revenues increased 22%, primarily due to an increase in Australian residential depth revenue, as a favorable product mix offset lower



listing volumes, higher revenues due to the acquisition of iProperty and the positive impact of foreign currency fluctuations. Revenues at Move increased 9%, primarily due to an increase in Connection for Co-brokerage<sup>SM</sup> product revenues and non-listing media revenues. The impact of foreign currency fluctuations of the U.S. dollar against local currencies resulted in a revenue increase of \$5 million, or 2%, for the three months ended September 30, 2016 as compared to the corresponding period of fiscal 2016.

Segment EBITDA at the Digital Real Estate Services segment increased \$10 million, or 18%, for the three months ended September 30, 2016 as compared to the corresponding period of fiscal 2016. The increase was primarily due to the higher revenues noted above and the positive impact of foreign currency fluctuations at REA Group, partially offset by increased marketing spend at REA Group and Move to drive traffic growth and brand awareness. The impact of foreign currency fluctuations of the U.S. dollar against local currencies resulted in a Segment EBITDA increase of \$3 million, or 6%, for the three months ended September 30, 2016 as compared to the corresponding period of fiscal 2016.

**Cable Network Programming** (7% and 6% of the Company's consolidated revenues in the three months ended September 30, 2016 and 2015, respectively)

	<b>For the three months ended September 30,</b>			
	<b>2016</b>	<b>2015</b>	<b>Change</b>	<b>% Change</b>
	<b>Better/(Worse)</b>			
<i>(in millions, except %)</i>				
Revenues:				
Advertising	\$ 27	\$ 23	\$ 4	17 %
Circulation and subscription	100	100	—	—
Other	1	1	—	—
<b>Total revenues</b>	<b>128</b>	<b>124</b>	<b>4</b>	<b>3 %</b>
Operating expenses	(106)	(90)	(16)	(18)%
Selling, general and administrative	(8)	(6)	(2)	(33)%
<b>Segment EBITDA</b>	<b>\$ 14</b>	<b>\$ 28</b>	<b>\$(14)</b>	<b>(50)%</b>

For the three months ended September 30, 2016, revenues at the Cable Network Programming segment increased \$4 million, or 3%, and Segment EBITDA decreased \$14 million, or 50%, as compared to the corresponding period of fiscal 2016. The revenue increase was due to the positive impact of foreign currency fluctuations and higher advertising revenues. The decrease in Segment EBITDA was mainly the result of higher sports programming rights costs primarily related to the NRL simulcast and certain one-time cricket rights costs, partially offset by the absence of costs associated with the English Premier League rights. The impact of foreign currency fluctuations of the U.S. dollar against the Australian dollar resulted in a revenue increase of \$3 million, or 2%, and a Segment EBITDA decrease of \$6 million, or 21%, for the three months ended September 30, 2016 as compared to the corresponding period of fiscal 2016.

## LIQUIDITY AND CAPITAL RESOURCES

### *Current Financial Condition*

The Company's principal source of liquidity is internally generated funds and cash and cash equivalents on hand. As of September 30, 2016, the Company's cash and cash equivalents were \$1,499 million. The Company expects these elements of liquidity will enable it to meet its liquidity needs in the foreseeable future. As described in greater detail below, in October 2013, the Company established a revolving credit facility of \$650 million, which terminates on October 23, 2020. The Company may request that the commitments be extended under certain circumstances as set forth in the credit agreement and may also request increases in the amount of the facility up to a maximum amount of \$900 million. In addition, the Company expects to have access to the worldwide capital markets, subject to market conditions, in order to issue debt if needed or desired. Although the Company believes that its cash on hand and future cash from operations, together with its access to the capital markets, will provide adequate resources to fund its operating and financing needs, its access to, and the availability of, financing on





balance sheet and for strategic opportunities including, among others, investing in the Company's business, strategic acquisitions, dividend payouts and repurchasing stock. A limitation of free cash flow available to News Corporation is that it does not represent the total increase or decrease in the cash balance for the period. Management compensates for the limitation of free cash flow available to News Corporation by also relying on the net change in cash and cash equivalents as presented in the Statements of Cash Flows prepared in accordance with GAAP which incorporate all cash movements during the period.

The following table presents a reconciliation of net cash (used in) provided by continuing operating activities to free cash flow available to News Corporation:

**For the three months ended September 30,**

leverage ratio. As of September 30, 2016, the Company was paying a commitment fee of 0.225% on any undrawn balance and an applicable margin of 0.50% for a Base Rate borrowing and 1.50% for a Eurodollar Rate borrowing.

As of the date of this filing, the Company has not borrowed any funds under the Facility.

#### ***REA Group Unsecured Revolving Loan Facility***

REA Group entered into a A\$480 million unsecured syndicated revolving loan facility agreement in connection with the acquisition of iProperty (the "REA Facility"). The REA Facility consists of three sub facilities of A\$120 million, A\$120 million and A\$240 million which become due in December 2017, December 2018 and December 2019, respectively. In February 2016, REA Group drew down the full A\$480 million (approximately \$340 million as of such date) available under the REA Facility, and the proceeds, less lenders' fees of \$1 million, were used to fund the iProperty acquisition. Borrowings under the REA Facility bear interest at a floating rate of the Australian BBSY plus a margin in the range of 0.85% and 1.45% depending on REA Group's net leverage ratio. As of September 30, 2016, REA Group was paying a margin of between 0.90% and 1.10%. REA Group paid approximately \$3 million in interest for the three months ended September 30, 2016, at a weighted average interest rate of 2.9%. The REA Facility requires REA Group to maintain a net leverage ratio of not more than 3.25 to 1.0 and an interest coverage ratio of not less than 3.0 to 1.0. As of September 30, 2016, REA Group was in compliance with all of the applicable debt covenants.

#### ***Commitments***

federal income taxes of the 21st Century Fox consolidated group relating to any taxable periods during which the Company or any of the Company's domestic subsidiaries were a member of the 21st Century Fox consolidated group. Consequently, the Company could be liable in the event any such liability is incurred, and not discharged, by any other member of the 21st Century Fox consolidated group. In conjunction with the Separation, the Company entered into the Tax Sharing and Indemnification Agreement with 21st Century Fox (the "Tax Sharing and Indemnification Agreement"), which requires 21st Century Fox to indemnify the Company for any such liability. Disputes or assessments could arise during future audits by the Internal Revenue Service ("IRS") or other taxing authorities in amounts that the Company cannot quantify.

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

The Company has exposure to different types of market risk including changes in foreign currency rates and stock prices. The Company neither holds nor issues financial instruments for trading purposes.

The following sections provide quantitative information on the Company's exposure to foreign currency 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 Rates

The Company conducts operations in three principal currencies: the U.S. dollar; the Australian dollar; and the British pound sterling. These currencies operate primarily as the functional currency for the Company's U.S., Australian and U.K. operations, respectively. Cash is managed centrally within each of the three regions with net earnings reinvested locally and working capital requirements met from existing liquid funds. To the extent such funds are not sufficient to meet working capital requirements, funding in the appropriate local currencies is made available from intercompany capital. The Company does not hedge its investments in the net assets of its Australian and U.K. foreign operations.

Because of fluctuations in exchange rates, the Company is subject to currency translation exposure on the results of its operations. Foreign currency translation risk is the risk that exchange rate gains or losses arise from translating foreign entities' statements of earnings and balance sheets from functional currency to the Company's reporting currency (the U.S. dollar) for consolidation purposes. The Company does not hedge translation risk because it generally generates positive cash flows from its international operations that are typically reinvested locally. Exchange rates with the most significant impact to its translation include the Australian dollar and British pound sterling. As exchange rates fluctuate, translation of its Statements of Operations into U.S. dollars affects the comparability of revenues and operating expenses between years.

The table below details the percentage of revenues and expenses by the three principal currencies for the fiscal year ended June 30, 2016:

	<u>U.S. Dollars</u>	<u>Australian Dollars</u>	<u>British Pound Sterling</u>
<b>Fiscal year ended June 30, 2016</b>			
Revenues .....	47%	28%	20%
Operating and Selling, general, and administrative expenses .....	48%	24%	21%

Based on the year ended June 30, 2016, a one cent change in each of the U.S. dollar/Australian dollar and the U.S. dollar/British pound sterling exchange rates would have impacted revenues by approximately \$32 million and \$11 million, respectively, for each currency on an annual basis, and would have impacted Total Segment EBITDA by approximately \$7 million and \$0.4 million, respectively, on an annual basis.

#### Stock Prices

The Company has common stock investments in publicly traded companies that are subject to market price volatility. These investments had an aggregate fair value of approximately \$139 million as of September 30, 2016. A hypothetical decrease in the market price of these investments of 10% would result in a decrease in comprehensive income of approximately \$14 million before tax. Any changes in fair value of the Company's common stock investments are not recognized unless deemed other-than-temporary.

#### Credit Risk

Cash and cash equivalents are maintained with multiple financial institutions. Deposits held with banks may 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 September 30, 2016 or June 30, 2016 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 September 30, 2016 and June 30, 2016, the Company did not anticipate nonperformance by any of the counterparties.

#### **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 15(d)-15(e) under the Securities Exchange Act of 1934, as amended (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 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 15(d)-15(f) under the Exchange Act) during the Company's first quarter of fiscal 2017 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

The following information supplements the discussion set forth under “Legal Proceedings” in the Company’s 2016 Form 10-K.

#### News America Marketing

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On February 29, 2016, the parties agreed to settle the litigation in the U.S. District Court for the Southern District of New York in which The Dial Corporation, Henkel Consumer Goods, Inc., H.J. Heinz Company, H.J. Heinz Company, L.P., Foster Poultry Farms, Smithfield Foods, Inc., HP Hood LLC and BEF Foods, Inc. alleged various claims under federal and state antitrust law against News Corporation, News America Incorporated (“NAI”), News America Marketing FSI L.L.C. (“NAM FSI”) and News America Marketing In-Store Services L.L.C. (“NAM In-Store Services” and, together with News Corporation, NAI and NAM FSI, the “NAM Group”). Under the terms of the settlement, the NAM Group agreed, among other things, to pay the plaintiffs and their attorneys approximately \$250 million, and the parties agreed to dismiss the litigation with prejudice. As required under the settlement agreement, the NAM Group delivered the proposed settlement amount into escrow during the three months ended September 30, 2016, to be held pending District Court approval. On October 31, 2016, the District Court approved the settlement, and the settlement payment will be released to the plaintiffs and their attorneys. The NAM Group also settled related claims for approximately \$30 million in February 2016.

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As reported in the 2016 Form 10-K, Valassis Communications, Inc. (“Valassis”) initiated two separate legal proceedings against certain of the Company’s subsidiaries on November 8, 2013. In the first proceeding (“Valassis I”), Valassis filed a motion for expedited discovery in a previously settled case involving NAI, NAM FSI and NAM In-Store Services based on its belief that defendants had engaged in activities prohibited under an order issued by the U.S. District Court for the Eastern District of Michigan (the “Order”) in connection with the parties’ settlement. Valassis subsequently filed a Notice of Violation of the Order (the “Notice”) in Valassis I alleging violations of federal and state antitrust laws and common law business torts and seeking treble damages, injunctive relief and attorneys’ fees. In the second proceeding (“Valassis II”), Valassis filed a new complaint against the NAM Group in the same District Court, which also alleged violations of federal and state antitrust laws and common law business torts and sought treble damages, injunctive relief and attorneys’ fees and costs.

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District Court for the Southern District of New York on behalf of all purchasers of 21st Century Fox’s common stock between July 8, 2009 and July 18, 2011 for claims under Section 10(b) and Section 20(a) of the Exchange Act alleging that false and misleading statements were issued regarding alleged acts of voicemail interception at 2058, the District Court misgded all of claims and on 2068, the District Court motion for 2068, ppeall the District Court’s tition expired 8, and the was,

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**ITEM 6. EXHIBITS**

(a) Exhibits.

- 10.1 Amendment No. 2, dated as of July 13, 2016, to the Credit Agreement, dated as of October 23, 2013, among the Company, as borrower, the lenders from time to time party thereto, JPMorgan Chase Bank, N.A. and Citibank, N.A., as co-administrative agents, JPMorgan Chase Bank, N.A., as designated agent, and the other parties thereto.\*
- 31.1 Chief Executive Officer Certification required by Rules 13a-14 and 15d-14 under the Securities

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NEWS CORPORATION  
(Registrant)

By: /s/ Bedi Ajay Singh

**Exhibit 10.1**

**AMENDMENT No. 2**, dated as of July 13, 2016 (this "Amendment"), to the Credit Agreement dated as of October 23, 2013, among NEWS CORPORATION,

“EEA Resolution Authority” means any public administrative authority or any Person entrusted with public



(b) At the time of and immediately after giving effect to this Amendment, no Default has occurred and is continuing.

Section 3. **Effectiveness**



ferring to the Credit Agreement, shall, unless expressly provided otherwise, refer to the Credit Agreement as amended by this Amendment.

Section 8. **Submission To Jurisdiction; Waivers**. Each of the parties hereto hereby irrevocably and unconditionally agrees that Section 8.11 of the Credit Agreement is incorporated herein *mutatis mutandis*.

*[The remainder of this page is intentionally left blank]*

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed by their respective

JPMORGAN CHASE BANK, N.A.,  
as Designated Agent and a Lender

By: /s/ Davide Migliardi

Name: Davide Migliardi

Title: Vice President

[Signature Page to Amendment]

CITIBANK, N.A., as Co-Administrative Agent and a  
Lender

By: /s/ Keith Lukasavich

Name: Keith Lukasavich

Title: Vice President & Director

[Lender Signature Page to Amendment]

COMMONWEALTH BANK OF AUSTRALIA,  
(Name of Institution)

By: /s/ Luke Copley  
Name: LUKE COPLEY  
Title: ASSOCIATE DIRECTOR

If a second signature is necessary:

By: \_\_\_\_\_  
Name:  
Title:

[Lender Signature Page to Amendment]

BANK OF AMERICA, N.A.

By: /s/ Eric Ridgway  
Name: Eric Ridgway  
Title: Director

[Lender Signature Page to Amendment]

DEUTSCHE BANK AG NEW YORK BRANCH

By: /s/ Virginia Cosenza

Name: Virginia Cosenza

Title: Vice President

If a second signature is necessary:

By: /s/ Ming K. Chu

Name: Ming K. Chu

Title: Director

[Lender Signature Page to Amendment]

GOLDMAN SACHS BANK USA,

By: /s/ Jerry Li

Name: Jerry Li

Title: Authorized Signatory

[Lender Signature Page to Amendment]



HSBC Bank USA, N.A.

By: /s/ Catherine Dong  
Name: Catherine Dong  
Title: Vice President

If a second signature is necessary:

By: \_\_\_\_\_  
Name:  
Title:

[Lender Signature Page to Amendment]

Lloyds Bank plc,

By: /s/ Erin Doherty

Name: Erin Doherty

Title: Assistant Vice President  
Transaction Execution  
Category A  
D006

By: /s/ Daven Popat

Name: Daven Popat

Title: Senior Vice President  
Transaction Execution  
Category A  
P003

[Lender Signature Page to Amendment]

NATIONAL AUSTRALIA BANK,  
(Name of Institution)

[Lender Signature Page to Amendment]

Westpac Banking Corporation,

By: /s/ Richard L. Yarnold

Name: Richard L. Yarnold

Title: Director

[Lender Signature Page to Amendment]



**Chief Financial Officer Certification**

**Required by Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as amended**

I, Bedi Ajay Singh, certify that:

1. I have reviewed this quarterly report on Form 10-Q of News Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 8, 2016

By: /s/ Bedi Ajay Singh

Bedi Ajay Singh  
Chief Financial Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of News Corporation on Form 10-Q for the fiscal quarter ended September 30, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, the undersigned officers of News Corporation, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that, to the best of our knowledge: