

# NEWS CORP

## FORM 10-Q (Quarterly Report)

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

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**FORM 10-Q**

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(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

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*News Corp*

**NEWS CORPORATION**

(Exact Name of Registrant as Specified in its Charter)

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**Delaware**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**1211 Avenue of the Americas, New York, New York**  
(Address of Principal Executive Offices)

**46-2950970**  
(I.R.S. Employer  
Identification No.)

**10036**  
(Zip Code)

Registrant's telephone number, including area code (212) 416-3400

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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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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 October 31, 2016, 381,714,733 shares of Class A Common Stock and 199,630,240 shares of Class B Common Stock were outstanding.

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
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
(Loss) income from continuing operations before income tax benefit		(1)	52
Income tax benefit	12	1	91
Income from continuing operations		—	143
Income from discontinued operations, net of tax	3	—	46
Net income		—	189
Less: Net income attributable to noncontrolling interests		(15)	(14)
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		—	0.08
Net (loss) income available to News Corporation stockholders per share		\$ (0.03)	\$ 0.30

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)	43	(450)
Comprehensive income (loss)	43	(261)
Less: Net income attributable to noncontrolling interests	(15)	(14)
Less: Other comprehensive (income) loss attributable to noncontrolling interests	(2)	7
Comprehensive income (loss) attributable to News Corporation stockholders	<u>\$ 26</u>	<u>\$ (268)</u>

<sup>(a)</sup> Net of income tax benefit of \$10 million and \$12 million for the three months ended September 30, 2016 and 2015, respectively.

<sup>(b)</sup> Net of income tax expense of \$3 million and \$4 million for the three months ended September 30, 2016 and 2015, respectively.

<sup>(c)</sup> 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	As of September 30, 2016 (unaudited)	As of June 30, 2016 (audited)
<b>Assets:</b>			
Current assets:			
Cash and cash equivalents		\$ 1,499	\$ 1,832
Restricted cash		—	315
Receivables, net	14	1,294	1,229
Other current assets	14	535	513
Total current assets		<u>3,328</u>	<u>3,889</u>
Non-current assets:			
Investments	5	2,269	2,270
Property, plant and equipment, net		2,367	2,405
Intangible assets, net		2,381	2,207
Goodwill		3,889	3,714
Deferred income tax assets		628	602
Other non-current assets	14	407	396
Total assets		<u>\$ 15,269</u>	<u>\$ 15,483</u>
<b>Liabilities and Equity:</b>			
Current liabilities:			
Accounts payable		\$ 240	\$ 217
Accrued expenses		1,136	1,371
Deferred revenue		401	388
Other current liabilities	14	510	466
Total current liabilities		<u>2,287</u>	<u>2,442</u>
Non-current liabilities:			
Borrowings	6	377	369
Retirement benefit obligations	11	332	350
Deferred income tax liabilities		171	171
Other non-current liabilities		336	349
Commitments and contingencies	10		
Redeemable preferred stock		20	20
Class A common stock <sup>(a)</sup>		4	4
Class B common stock <sup>(b)</sup>		2	2
Additional paid-in capital		12,434	12,434
Retained earnings		76	150
Accumulated other comprehensive loss		(986)	(1,026)
Total News Corporation stockholders' equity		<u>11,530</u>	<u>11,564</u>
Noncontrolling interests		216	218
Total equity	7	<u>11,746</u>	<u>11,782</u>
Total liabilities and equity		<u>\$ 15,269</u>	<u>\$ 15,483</u>

(a) **Class A common stock**, \$0.01 par value per share ("Class A Common Stock"), 1,500,000,000 shares authorized, 381,685,162 and 380,490,770 shares issued and outstanding, net of 27,368,413 treasury shares at par, at September 30, 2016 and June 30, 2016, respectively.

(b) **Class B common stock**, \$0.01 par value per share ("Class B Common Stock"), 750,000,000 shares authorized, 199,630,240 shares issued and outstanding, net of 78,430,424 treasury shares at par, at September 30, 2016 and June 30, 2016, respectively.

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

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

	Notes	For the three months ended September 30,	
		2016	2015
<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		(268)	141
<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		(11)	(86)
<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		(59)	(37)
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 (together with its subsidiaries, “News Corporation,” “News Corp,” the “Company,” “we,” or “us”) is a global diversified media and information services company comprised of businesses across a range of media, including: news and information services, book publishing, digital real estate services, cable network programming in Australia and pay-TV distribution in Australia.

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. Unless indicated otherwise, the information in the notes to the Consolidated Financial Statements relates to the Company’s continuing operations. (See Note 3—Discontinued Operations).

***Basis of Presentation***

The accompanying unaudited consolidated financial statements of the Company, which are referred to herein as the “Consolidated Financial Statements,” have been prepared in accordance with generally accepted accounting principles in the United States of America (“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 Consolidated Financial Statements. Operating results for the interim period presented are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2017. 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 could differ from those estimates.

Intercompany transactions and balances have been eliminated. Equity investments in which the Company exercises significant influence but does not exercise control and is not the primary beneficiary are accounted for using the equity method. Investments in which the Company is not able to exercise significant influence over the investee are designated as available-for-sale if readily determinable fair values are available. If an investment’s fair value is not readily determinable, the Company accounts for its investment under the cost method.

The consolidated statements of operations are referred to herein as the “Statements of Operations.” The consolidated balance sheets are referred to herein as the “Balance Sheets.” The consolidated statements of cash flows are referred to herein as the “Statements of Cash Flows.”

The accompanying 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, 2016 as filed with the Securities and Exchange Commission (“SEC”) on August 12, 2016 (the “2016 Form 10-K”).

Certain reclassifications have been made to the prior period consolidated financial statements to conform to the current year presentation. During the three months ended September 30, 2016, the Company reclassified its listing revenues generated primarily from agents, brokers and developers from advertising revenue to real estate revenue to better reflect the Company’s revenue mix and how management reviews the performance of the Digital Real Estate Services segment.

The Company’s fiscal year ends on the Sunday closest to June 30. Fiscal 2017 and fiscal 2016 include 52 and 53 weeks, respectively. All references to the three months ended September 30, 2016 and 2015 relate to the three months ended October 2, 2016 and September 27, 2015, respectively. For convenience purposes, the Company continues to date its consolidated financial statements as of September 30.

**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 assessing collectability, presentation of sales taxes, noncash consideration, and completed contracts and contract modifications at transition. The effective date for all ASUs noted above is annual and interim reporting periods beginning July 1, 2018. The Company is currently evaluating the impact these ASUs will have on its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-05, “Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement” (“ASU 2015-05”). ASU 2015-05 clarifies guidance about whether a customer’s cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. This ASU was adopted on a prospective basis for arrangements entered into, or materially modified beginning July 1, 2016. The adoption did not have a material impact on the consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, “Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities” (“ASU 2016-01”). The amendments in ASU 2016-01 address certain aspects of recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01 is effective for the Company for annual and interim reporting periods beginning July 1, 2018. The Company is currently evaluating the impact ASU 2016-01 will have on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842)” (“ASU 2016-02”). The amendments in ASU 2016-02 address certain aspects in lease accounting, with the most significant impact for lessees. The amendments in ASU 2016-02 require lessees to recognize all leases on the balance sheet by recording a right-of-use asset and a lease liability, and lessor accounting has been updated to align with the new requirements for lessees. The new standard also provides changes to the existing sale-leaseback guidance. ASU 2016-02 is effective for the Company for annual and interim reporting periods beginning July 1, 2019. The Company is currently evaluating the impact ASU 2016-02 will have on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, “Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting” (“ASU 2016-09”). The amendments in ASU

**NEWS CORPORATION**  
**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

2016-09 address several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for the Company for annual and interim reporting periods beginning July 1, 2017. The Company is currently evaluating the impact ASU 2016-09 will have on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments” (“ASU 2016-13”). The amendments in ASU 2016-13 require a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. ASU 2016-13 is effective for the Company for annual and interim reporting periods beginning July 1, 2020. The Company is currently evaluating the impact ASU 2016-13 will have on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force)” (“ASU 2016-15”). The amendments in ASU 2016-15 address eight specific cash flow issues with the objective of reducing the existing diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230, Statement of Cash Flows, and other Topics. ASU 2016-15 is effective for the Company for annual and interim reporting periods beginning July 1, 2018. The Company is currently evaluating the impact ASU 2016-15 will have on its consolidated financial statements.

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

***Fiscal 2017***

***Wireless Group plc***

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 *The Sun* and *The Times*. The Company utilized the restricted cash which was specifically set aside at June 30, 2016 for purposes of funding the acquisition and therefore the Company has no restricted cash as of September 30, 2016.

The total transaction value for the Wireless Group acquisition is set forth below (in millions):

Cash paid for Wireless Group equity	\$285
Plus: Assumed debt	23
Total transaction value	<u>\$308</u>

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 acquired intangible assets of approximately \$193 million primarily relate to broadcast licenses which have an indefinite life. The Company recorded approximately \$149 million of goodwill on the transaction. The values assigned to the acquired assets and liabilities are based on preliminary estimates of fair value available as of the date of this filing and may be adjusted upon completion of final valuations of certain assets and liabilities. Any changes in

**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***

*Checkout 51 Mobile Apps ULC*

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.

*Unruly Holdings Limited*

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.

*DIAKRIT International Limited*

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.

*iProperty Group Limited*

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	<u>416</u>
Fair value of previously held iProperty investment	120
Total fair value	<u>\$ 536</u>

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):

<b>Assets Acquired:</b>	
Goodwill	\$ 498
Intangible assets	72
Net Liabilities	<u>(34)</u>
Net assets acquired	<u>\$ 536</u>

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

*Flatmates.com.au Pty Ltd*

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.

*Australian Regional Media*

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:

	<b>For the three months ended September 30,</b>	
	<b>2016</b>	<b>2015</b>
	(in millions)	
Revenues	\$ —	\$ 26
Loss before income tax benefit	—	(122)
Income tax benefit	—	168
Income from discontinued operations, net of tax	<u>\$ —</u>	<u>\$ 46</u>

The following table summarizes the cash flows from discontinued operations:

	<b>For the three months ended September 30,</b>	
	<b>2016</b>	<b>2015</b>
	(in millions)	
Net cash used in operating activities	\$ (3)	\$ (35)
Net cash used in investing activities	—	—
Net cash used in financing activities	—	—
Net decrease in cash and cash equivalents	<u>\$ (3)</u>	<u>\$ (35)</u>

Liabilities held for sale related to discontinued operations as of September 30, 2016 and June 30, 2016 are included in Other current liabilities in the Balance Sheets as follows:

	<b>As of September 30, 2016</b>	<b>As of June 30, 2016</b>
	(in millions)	
Current assets	\$ —	\$ 1
Non-current assets	—	—
Total assets	<u>\$ —</u>	<u>\$ 1</u>
Current Liabilities	5	7
Non-current liabilities	—	—
Total liabilities	<u>\$ 5</u>	<u>\$ 7</u>
Net liabilities held for sale	<u>\$ (5)</u>	<u>\$ (6)</u>

**NEWS CORPORATION**  
**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 4. 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 fiscal 2017 and 2016 were for employee termination benefits.

Changes in restructuring program liabilities were as follows:

	For the three months ended September 30,							
	2016				2015			
	One time employee termination benefits	Facility related costs	Other costs	Total	One time employee termination benefits	Facility related costs	Other costs	Total
	(in millions)							
Balance, beginning of period	\$ 33	\$ 5	\$ 6	\$ 44	\$ 47	\$ 5	\$ 6	\$ 58
Additions	20	—	—	20	17	—	—	17
Payments	(22)	—	—	(22)	(26)	—	—	(26)
Other	(1)	—	—	(1)	(4)	—	—	(4)
Balance, end of period	<u>\$ 30</u>	<u>\$ 5</u>	<u>\$ 6</u>	<u>\$ 41</u>	<u>\$ 34</u>	<u>\$ 5</u>	<u>\$ 6</u>	<u>\$ 45</u>

As of September 30, 2016, restructuring liabilities of approximately \$31 million were included in the Balance Sheet in Other current liabilities and \$10 million were included in Other non-current liabilities.

**NOTE 5. INVESTMENTS**

The Company's investments were comprised of the following:

	Ownership Percentage as of September 30, 2016	As of September 30, 2016	As of June 30, 2016
		(in millions)	
Equity method investments:			
Foxtel <sup>(a)</sup>	50%	\$ 1,461	\$ 1,437
Other equity method investments	various	106	101
Loan receivable from Foxtel <sup>(b)</sup>	N/A	346	338
Available-for-sale securities <sup>(c)</sup>	various	139	189
Cost method investments <sup>(d)</sup>	various	217	205
Total Investments		<u>\$ 2,269</u>	<u>\$ 2,270</u>

<sup>(a)</sup> The change in the Foxtel investment for the three months ended September 30, 2016 was primarily due to the impact of foreign currency fluctuations.

<sup>(b)</sup> In May 2012, Foxtel purchased Austar United Communications Ltd. The transaction was funded by Foxtel bank debt and pro rata capital contributions made by Foxtel shareholders in the form of subordinated shareholder notes based on their respective ownership interests. The Company's share of the subordinated shareholder notes was approximately A\$451 million (\$346 million and \$338 million as of September 30, 2016 and June 30, 2016, respectively). The subordinated shareholder notes can be repaid beginning in July 2022 provided that Foxtel's senior debt has been repaid. The subordinated shareholder notes have a maturity

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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 under ASC 820, "Fair Value Measurement," as such investments have quoted prices in active markets. The cost basis, unrealized gains, unrealized losses and fair market value of available-for-sale investments are set forth below:

	As of September 30, 2016	As of June 30, 2016
	(in millions)	
Cost basis of available-for-sale investments	\$ 144	\$ 155
Accumulated gross unrealized gain	5	34
Accumulated gross unrealized loss	(10)	—
Fair value of available-for-sale investments	<u>\$ 139</u>	<u>\$ 189</u>
Net deferred tax (asset) liability	<u>\$ (1)</u>	<u>\$ 13</u>

**Equity (Losses) Earnings of Affiliates**

The Company's share of the (losses) earnings of its equity affiliates was as follows:

	For the three months ended September 30,	
	2016	2015
	(in millions)	
Foxtel (a)	\$ (11)	\$ 9
Other equity affiliates	(4)	(1)
Total Equity (losses) earnings of affiliates	<u>\$ (15)</u>	<u>\$ 8</u>

- (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.

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

	For the three months ended September 30,	
	2016	2015
	(in millions)	
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. Operating income increased primarily due to higher revenues as noted above, lower depreciation and amortization expense and the positive impact of foreign currency fluctuations, partially offset by higher programming spend. Net income decreased mainly due to the \$21 million loss resulting from Foxtel management's decision to cease Presto operations in January 2017.

**NOTE 6. BORROWINGS**

The Company's total borrowings consist of the following:

	As of September 30, 2016	As of June 30, 2016
	(in millions)	
Facility due December 2017	\$ 92	\$ 90
Facility due December 2018	92	90
Facility due December 2019	183	179
Other obligations	14	13
<b>Total debt</b>	<b>381</b>	<b>372</b>
Less: Current portion	(4)	(3)
<b>Total long-term debt</b>	<b>\$ 377</b>	<b>\$ 369</b>

***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 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

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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.

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**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
Other comprehensive income (loss)	41	2	43	(443)	(7)	(450)
Dividends	(59)	(18)	(77)	(58)	(15)	(73)
Stock repurchases	—	—	—	(13)	—	(13)
Other	(1)	(1)	(2)	10	2	12
Balance, end of period	<u>\$ 11,530</u>	<u>\$ 216</u>	<u>\$11,746</u>	<u>\$ 11,616</u>	<u>\$ 165</u>	<u>\$11,781</u>

**Stock Repurchases**

In May 2013, the Company's Board of Directors (the "Board of Directors") authorized the Company to repurchase up to an aggregate of \$500 million of its Class A Common Stock. On May 10, 2015, the Company announced it had begun repurchasing shares of Class A Common Stock under the stock repurchase program. No stock repurchases were made during the three months ended September 30, 2016. Through October 31, 2016, the Company repurchased approximately 5.2 million shares of Class A Common Stock for an aggregate cost of approximately \$71 million. The remaining authorized amount under the stock repurchase program as of October 31, 2016 was approximately \$429 million. All decisions regarding any future stock repurchases are at the sole discretion of a duly appointed committee of the Board of Directors and management. The committee's decisions regarding future stock repurchases will be evaluated from time to time in light of 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 committee may deem relevant. The stock repurchase authorization may be modified, extended, suspended or discontinued at any time by the Board of Directors and the Board of Directors cannot provide any assurances that any additional shares will be repurchased.

**Dividends**

In August 2016, the Board of Directors declared a semi-annual cash dividend of \$0.10 per share for Class A Common Stock and Class B Common Stock. This dividend was paid on October 19, 2016 to stockholders of record at the close of business on September 14, 2016. 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 September 30,	
	2016	2015
Cash dividend per share	\$ 0.10	\$ 0.10

The timing, declaration, amount and payment of future dividends to stockholders, if any, is within the discretion of the Board of Directors. The Board of Directors' decisions regarding the payment of future dividends will

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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.

The Company recognized \$20 million and \$17 million of equity-based compensation expense for the three months ended September 30, 2016 and 2015, respectively.

**Performance Stock Units**

During the three months ended September 30, 2016 and 2015, the Company granted approximately 5.2 million and 3.7 million PSUs, respectively, at target, of which approximately 3.8 million and 2.6 million, respectively, will be settled in Class A Common Stock assuming performance conditions are met, with the remaining, having been granted to executive directors and to employees in certain foreign locations, being settled in cash assuming performance conditions are met. Cash settled awards are marked-to-market each reporting period.

During the three months ended September 30, 2016 and 2015, approximately 2.8 million and 1.2 million PSUs, respectively, vested, of which approximately 1.8 million and 1.0 million, respectively, were settled in shares of Class A Common Stock before statutory tax withholdings. The remaining 1.0 million and 0.2 million PSUs, respectively, settled during the three months ended September 30, 2016 and 2015 were settled in cash for approximately \$13.1 million and \$3.3 million, respectively, before statutory tax withholdings.

**Restricted Stock Units**

During the three months ended September 30, 2016 and 2015, the Company granted nil and approximately 0.2 million RSUs, respectively, all of which will be settled in Class A Common Stock.

During the three months ended September 30, 2016 and 2015, approximately 0.1 million and 0.1 million RSUs, respectively, vested, all of which were settled in shares of Class A Common Stock.

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**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”:

	<b>For the three months ended September 30,</b>	
	<b>2016</b>	<b>2015</b>
	<b>(in millions, except per share amounts)</b>	
Income from continuing operations	\$ —	\$ 143
Less: Net income attributable to noncontrolling interests	(15)	(14)
(Loss) income from continuing operations available to News Corporation stockholders	(15)	129
Income from discontinued operations, net of tax, available to News Corporation stockholders	—	46
Net (Loss) income available to News Corporation stockholders	<u>\$ (15)</u>	<u>\$ 175</u>
Weighted-average number of shares of common stock outstanding—basic	580.8	581.0
Dilutive effect of equity awards <sup>(a)</sup>	—	1.7
Weighted-average number of shares of common stock outstanding—diluted	<u>580.8</u>	<u>582.7</u>
(Loss) income from continuing operations available to News Corporation stockholders per share—basic and diluted	\$ (0.03)	\$ 0.22
Income from discontinued operations available to News Corporation stockholders per share—basic and diluted	\$ —	\$ 0.08
Net (loss) income available to News Corporation stockholders per share—basic and diluted	<u>\$ (0.03)</u>	<u>\$ 0.30</u>

<sup>(a)</sup> The dilutive impact of the Company’s PSUs, RSUs and stock options have been excluded from the calculation of diluted (loss) earnings per share for the three months ended September 30, 2016 because their inclusion would have an antidilutive effect on the net loss per share.

**NOTE 10. 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 Company’s commitments as of September 30, 2016 have not changed significantly from the disclosures included in the 2016 Form 10-K.

***Contingencies***

The Company routinely is involved in various legal proceedings, claims and governmental inspections or investigations, including those discussed below. The outcome of these matters and claims is subject to significant uncertainty, and the Company often cannot predict what the eventual outcome of pending matters will be or the timing of the ultimate resolution of these matters. Fees, expenses, fines, penalties, judgments or settlement costs which might be incurred by the Company in connection with the various proceedings could adversely affect its results of operations and financial condition.

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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.

*News America Marketing*

*In-Store Marketing and FSI Purchasers*

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.

*Valassis Communications, Inc.*

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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30, 2016 and ordered that the Notice be referred to the Antitrust Expert Panel. The District Court further ordered that the case be administratively closed and that it may be re-opened following proceedings before the Antitrust Expert Panel.

- On November 8, 2013, Valassis also filed a new complaint in the U.S. District Court for the Eastern District of Michigan against the NAM Group alleging violations of federal and state antitrust laws and common law business torts (“Valassis II”). The complaint sought treble damages, injunctive relief and attorneys’ fees and costs. On December 19, 2013, the NAM Group filed a motion to dismiss the newly filed complaint.

The District Court referred the NAM Group’s motion to dismiss to the magistrate judge for determination, and on July 16, 2014, the magistrate judge recommended that the District Court grant the NAM Group’s motion in part with respect to certain claims regarding alleged bundling and tying conduct and stay the remainder of the action. On March 30, 2016, the District Court adopted in part the magistrate judge’s recommendation. The District Court ordered that Valassis’s bundling and tying claims be dismissed without prejudice to Valassis’s rights to pursue relief for those claims in Valassis I. The District Court sustained Valassis’s objection to the stay of Valassis II, but further ordered that all remaining claims in the NAM Group’s motion to dismiss be referred to the Antitrust Expert Panel. The District Court further ordered that the case be administratively closed and that it may be re-opened following proceedings before the Antitrust Expert Panel.

The Antitrust Expert Panel was convened and, on September 24, 2016, issued a Report and Recommendation recommending that the NAM Group’s motion to dismiss the Valassis II complaint be denied. The Antitrust Expert Panel also scheduled a preliminary hearing in Valassis I for December 19, 2016 and ordered discovery to be completed by November 2017. While it is not possible at this time to predict with any degree of certainty the ultimate outcome of these actions, the NAM Group believes it has been compliant with applicable laws and intends to defend itself vigorously in both actions.

*U.K. Newspaper Matters and Related Investigations and Litigation*

A purported class action lawsuit captioned *Wilder v. News Corp., et al.* was previously filed against 21st Century Fox, Rupert Murdoch, James Murdoch, Rebekah Brooks, Les Hinton and the Company’s subsidiary, NI Group Limited (now known as News Corp UK & Ireland Limited) in the U.S. 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 Securities Exchange Act of 1934, as amended, alleging that false and misleading statements were issued regarding alleged acts of voicemail interception at *The News of the World* and seeking compensatory damages, rescission for damages sustained and costs. On September 30, 2015, the District Court dismissed all of plaintiffs’ claims and on September 21, 2016, the District Court denied plaintiffs motion for reconsideration. On October 21, 2016, plaintiffs’ time to appeal the District Court’s decision expired, and the case was closed.

In addition, civil claims have been brought against the Company with respect to, among other things, voicemail interception and inappropriate payments to public officials at the Company’s former publication, *The News of the World*, and at *The Sun*, and related matters (the “U.K. Newspaper Matters”). The Company has admitted liability in many civil cases and has settled a number of cases. The Company also settled a number of claims through a private compensation scheme which was closed to new claims after April 8, 2013.

In connection with the Company’s separation of its businesses (the “Separation”) from 21st Century Fox on June 28, 2013 (the “Distribution Date”), the Company and 21st Century Fox agreed in the Separation and Distribution Agreement that 21st Century Fox would indemnify the Company for payments made after the Distribution Date

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arising out of civil claims and investigations relating to the U.K. Newspaper Matters as well as legal and professional fees and expenses paid in connection with the previously concluded criminal matters, other than fees, expenses and costs relating to employees (i) who are not directors, officers or certain designated employees or (ii) with respect to civil matters, who are not co-defendants with the Company or 21st Century Fox. 21st Century Fox's indemnification obligations with respect to these matters will be settled on an after-tax basis.

The net expense related to the U.K. Newspaper Matters in Selling, general and administrative expenses was \$2 million and \$5 million for the three months ended September 30, 2016 and 2015, respectively. As of September 30, 2016, the Company has provided for its best estimate of the liability for the claims that have been filed and costs incurred, including liabilities associated with employment taxes, and has accrued approximately \$101 million, of which approximately \$58 million will be indemnified by 21st Century Fox, and a corresponding receivable was recorded in Other current assets on the Balance Sheet as of September 30, 2016. It is not possible to estimate the liability or corresponding receivable for any additional claims that may be filed given the information that is currently available to the Company. If more claims are filed and additional information becomes available, the Company will update the liability provision and corresponding receivable for such matters.

The Company is not able to predict the ultimate outcome or cost of the civil claims. It is possible that these proceedings and any adverse resolution thereof could damage its reputation, impair its ability to conduct its business and adversely affect its results of operations and financial condition.

*Other*

The Company's operations are subject to tax in various domestic and international jurisdictions and as a matter of course, it 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 financial condition, future results of operations or liquidity. As subsidiaries of 21st Century Fox prior to the Separation, the Company and each of its domestic subsidiaries have joint and several liability with 21st Century Fox for the consolidated U.S. 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, which requires 21st Century Fox to indemnify the Company for any such liability. Disputes or assessments could arise during future audits by the IRS or other taxing authorities in amounts that the Company cannot quantify.

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**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:

	Pension benefits				Postretirement benefits	
	Domestic		Foreign			
	For the three months ended September 30,					
	2016	2015	2016	2015	2016	2015
	(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.

**NOTE 12. INCOME TAXES**

At the end of each interim period, the Company estimates the annual effective income tax rate and applies that rate to its ordinary quarterly earnings. The tax expense or benefit related to significant, unusual or extraordinary items that will be separately reported or reported net of their related tax effect and are individually computed are recognized in the interim period in which those items occur. In addition, the effects of changes in enacted tax laws or rates or tax status are recognized in the interim period in which the change occurs.

The Company's effective income 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 income 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. In addition, the Company recognized a tax benefit of approximately \$151 million upon reclassification of the Digital Education segment to discontinued operations in Income from discontinued operations, net of tax, in the Statement of Operations for the three months ended September 30, 2015.

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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 accrued for the expected outcome of uncertain tax matters and believes such liabilities represent a reasonable provision for taxes ultimately expected to be paid, however, these liabilities may need to be adjusted as new information becomes known and as tax examinations continue to progress.

The Company paid gross income taxes of \$34 million and \$19 million during the three months ended September 30, 2016 and 2015, respectively, and received income tax refunds of nil and \$1 million, respectively.

**NOTE 13. SEGMENT INFORMATION**

The Company manages and reports its businesses in the following five segments:

- **News and Information Services** —The News and Information Services segment includes the Company's global print, digital and broadcast radio media platforms. These product offerings include the global print and digital versions of *The Wall Street Journal* and the Dow Jones Media Group, which includes *Barron's* and MarketWatch, as well as the Company's suite of professional information products, including Factiva, Dow Jones Risk & Compliance, Dow Jones Newswires, Dow Jones PEVC and DJX. The Company also owns, among other publications, *The Australian*, *The Daily Telegraph*, *Herald Sun* and *The Courier-Mail* in Australia, *The Times*, *The Sunday Times*, *The Sun* and *The Sun on Sunday* in the U.K. and the *New York Post* in the U.S. This segment also includes News America Marketing, a leading provider of home-delivered shopper media, in-store marketing products and services and digital marketing solutions, including Checkout 51's mobile application, as well as Unruly, a leading global video advertising distribution platform, and Wireless Group, operator of talkSPORT, the leading sports radio network in the U.K.
- **Book Publishing** —The Book Publishing segment consists of HarperCollins, the second largest consumer book publisher in the world, with operations in 18 countries and particular strengths in general fiction, nonfiction, children's and religious publishing. HarperCollins owns more than 120 branded publishing imprints, including Avon, Harper, HarperCollins Children's Books, William Morrow, Harlequin and Christian publishers Zondervan and Thomas Nelson, and publishes works by well-known authors such as Harper Lee, Patricia Cornwell, Veronica Roth, Rick Warren, Sarah Young and Agatha Christie and popular titles such as *The Hobbit*, *Goodnight Moon*, *To Kill a Mockingbird*, *Jesus Calling* and the *Divergent* series.
- **Digital Real Estate Services** —The Digital Real Estate Services segment consists primarily of the Company's interests in REA Group and Move. REA Group is a publicly traded company listed on the Australian Securities Exchange (ASX: REA) that advertises property and property-related services on websites and mobile applications across Australia, Asia and Europe. REA Group operates Australia's leading residential and commercial property websites, realestate.com.au and realcommercial.com.au. The Company holds a 61.6% interest in REA Group.  
  
Move is a leading provider of online real estate services in the U.S. and primarily operates realtor.com®, a premier real estate information and services marketplace. Move also offers a number of professional software and services products, including Top Producer®, TigerLead® and ListHub™. The Company owns an 80% interest in Move, with the remaining 20% being held by REA Group.
- **Cable Network Programming** —The Cable Network Programming segment consists of FOX SPORTS Australia, the leading sports programming provider in Australia, with seven high definition television

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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).

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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.

	For the three months ended September 30,	
	2016	2015
(in millions)		
<b>Revenues:</b>		
News and Information Services	\$ 1,222	\$ 1,290
Book Publishing	389	409
Digital Real Estate Services	226	191
Cable Network Programming	128	124
Other	—	—
<b>Total revenues</b>	<u>1,965</u>	<u>2,014</u>
<b>Segment EBITDA:</b>		
News and Information Services	\$ 46	\$ 83
Book Publishing	48	42
Digital Real Estate Services	67	57
Cable Network Programming	14	28
Other	(45)	(45)
<b>Total Segment EBITDA</b>	<u>130</u>	<u>165</u>
Depreciation and amortization	(120)	(121)
Restructuring charges	(20)	(17)
Equity (losses) earnings of affiliates	(15)	8
Interest, net	7	12
Other, net	17	5
(Loss) income from continuing operations before income tax benefit	(1)	52
Income tax benefit	1	91
<b>Income from continuing operations</b>	<u>\$ —</u>	<u>\$ 143</u>
	As of September 30, 2016	As of June 30, 2016
(in millions)		
<b>Total assets:</b>		
News and Information Services	\$ 6,931	\$ 6,728
Book Publishing	1,877	1,855
Digital Real Estate Services	2,152	2,158
Cable Network Programming	1,117	1,101
Other <sup>(a)</sup>	923	1,371
Investments	2,269	2,270
<b>Total assets</b>	<u>\$ 15,269</u>	<u>\$15,483</u>

<sup>(a)</sup> The Other segment primarily includes Cash and cash equivalents.

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	As of September 30, 2016	As of June 30, 2016
(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	4	4
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:

	As of September 30, 2016	As of June 30, 2016
(in millions)		
Receivables	\$ 1,511	\$ 1,442
Allowances for doubtful accounts	(175)	(170)
Allowance for sales returns	(42)	(43)
Receivables, net	<u>\$ 1,294</u>	<u>\$ 1,229</u>

The Company's receivables did not contain 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.

***Other Current Assets***

The following table sets forth the components of Other current assets:

	As of September 30, 2016	As of June 30, 2016
(in millions)		
Inventory <sup>(a)</sup>	\$ 233	\$ 218
Amounts due from 21st Century Fox <sup>(b)</sup>	58	55
Prepayments and other current assets	244	240
Total Other current assets	<u>\$ 535</u>	<u>\$ 513</u>

<sup>(a)</sup> Inventory at September 30, 2016 and June 30, 2016 was primarily comprised of books, newsprint and programming rights.

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

**Other Non-Current Assets**

The following table sets forth the components of Other non-current assets:

	As of September 30, 2016	As of June 30, 2016
	(in millions)	
Royalty advances to authors	\$ 317	\$ 311
Other	90	85
Total Other non-current assets	<u>\$ 407</u>	<u>\$ 396</u>

**Other Current Liabilities**

The following table sets forth the components of Other current liabilities:

	As of September 30, 2016	As of June 30, 2016
	(in millions)	
Current tax payable	\$ 44	\$ 33
Royalties and commissions payable	196	179
Other	270	254
Total Other current liabilities	<u>\$ 510</u>	<u>\$ 466</u>

**Other, net**

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

	For the three months ended September 30,	
	2016	2015
	(in millions)	
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	1	5
Total Other, net	<u>\$ 17</u>	<u>\$ 5</u>

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

*This document, including the following discussion and analysis, 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. All statements that are not statements of historical fact are forward-looking statements. 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 discussion and analysis and include statements regarding the intent, belief or current expectations of the Company, its directors or its officers with respect to, among other things, trends affecting the Company's financial condition or results of operations and the outcome of contingencies such as litigation and investigations. Readers are cautioned that any forward-looking statements are not guarantees of future performance and involve risks and uncertainties. More information regarding these risks, uncertainties and other important factors that could cause actual results to differ materially from those in the forward-looking statements is set forth under the heading "Risk Factors" in Part II, Item 1A in this Quarterly Report on Form 10-Q and under the heading "Risk Factors" in Part I, Item 1A in News Corporation's Annual Report on Form 10-K for the fiscal year ended June 30, 2016 as filed with the Securities and Exchange Commission (the "SEC") on August 12, 2016 (the "2016 Form 10-K"). The Company 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 the Company with the SEC. This section should be read together with the unaudited consolidated financial statements of News Corporation and related notes set forth elsewhere herein and the 2016 Form 10-K.*

### INTRODUCTION

News Corporation (together with its subsidiaries, "News Corporation," "News Corp," the "Company," "we," or "us") is a global diversified media and information services company comprised of businesses across a range of media, including: news and information services, book publishing, digital real estate services, cable network programming in Australia and pay-TV distribution in Australia.

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. Unless indicated otherwise, the information in the notes to the Consolidated Financial Statements relates to the Company's continuing operations. (See Note 3—Discontinued Operations in the accompanying Consolidated Financial Statements).

During the three months ended September 30, 2016, the Company reclassified its listing revenues generated primarily from agents, brokers and developers from advertising revenue to real estate revenue to better reflect the Company's revenue mix and how management reviews the performance of the Digital Real Estate Services segment.

The unaudited consolidated financial statements are referred to herein as the "Consolidated Financial Statements." The consolidated statements of operations are referred to herein as the "Statements of Operations." The consolidated balance sheets are referred to herein as the "Balance Sheets." The consolidated statements of cash flows are referred to herein as the "Statements of Cash Flows." The Financial Statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP").

Management's discussion and analysis of financial condition and results of operations is intended to help provide an understanding of the Company's financial condition, changes in financial condition and results of operations. This discussion is organized as follows:

- **Overview of the Company's Business**—This section provides a general description of the Company's businesses, as well as developments that occurred to date during fiscal 2017 and in the three months

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 basis and a segment basis. In addition, a brief description is provided of significant transactions and events that have an impact on the comparability of the results being analyzed.
- **Liquidity and Capital Resources** — This section provides an analysis of the Company’s cash flows for the three months ended September 30, 2016 and 2015 as well as a discussion of the Company’s financial arrangements and outstanding commitments, both firm and contingent, that existed during fiscal 2017.

## OVERVIEW OF THE COMPANY’S BUSINESSES

The Company manages and reports its businesses in the following five segments:

- **News and Information Services** —The News and Information Services segment includes the Company’s global print, digital and broadcast radio media platforms. These product offerings include the global print and digital versions of *The Wall Street Journal* and the Dow Jones Media Group, which includes *Barron’s* and MarketWatch, as well as the Company’s suite of professional information products, including Factiva, Dow Jones Risk & Compliance, Dow Jones Newswires, Dow Jones PEVC and DJX. The Company also owns, among other publications, *The Australian*, *The Daily Telegraph*, *Herald Sun* and *The Courier-Mail* in Australia, *The Times*, *The Sunday Times*, *The Sun* and *The Sun on Sunday* in the U.K. and the *New York Post* in the U.S. This segment also includes News America Marketing, a leading provider of home-delivered shopper media, in-store marketing products and services and digital marketing solutions, including Checkout 51’s mobile application, as well as Unruly, a leading global video advertising distribution platform, and Wireless Group, operator of talkSPORT, the leading sports radio network in the U.K.
- **Book Publishing** —The Book Publishing segment consists of HarperCollins, the second largest consumer book publisher in the world, with operations in 18 countries and particular strengths in general fiction, nonfiction, children’s and religious publishing. HarperCollins owns more than 120 branded publishing imprints, including Avon, Harper, HarperCollins Children’s Books, William Morrow, Harlequin and Christian publishers Zondervan and Thomas Nelson, and publishes works by well-known authors such as Harper Lee, Patricia Cornwell, Veronica Roth, Rick Warren, Sarah Young and Agatha Christie and popular titles such as *The Hobbit*, *Goodnight Moon*, *To Kill a Mockingbird*, *Jesus Calling* and the *Divergent* series.
- **Digital Real Estate Services** —The Digital Real Estate Services segment consists primarily of the Company’s interests in REA Group Limited (“REA Group”) and Move, Inc. (“Move”). REA Group is a publicly traded company listed on the Australian Securities Exchange (“ASX”) (ASX: REA) that advertises property and property-related services on websites and mobile applications across Australia, Asia and Europe. REA Group operates Australia’s leading residential and commercial property websites, realestate.com.au and realcommercial.com.au. The Company holds a 61.6% interest in REA Group.  
  
Move is a leading provider of online real estate services in the U.S. and primarily operates realtor.com®, a premier real estate information and services marketplace. Move also offers a number of professional software and services products, including Top Producer®, TigerLead® and ListHub™. The Company owns an 80% interest in Move, with the remaining 20% being held by REA Group.
- **Cable Network Programming** —The Cable Network Programming segment consists of FOX SPORTS Australia, the leading sports programming provider in Australia, with seven high definition television 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.

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- **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**

Revenue at the News and Information Services segment is derived from the sale of advertising, circulation and subscriptions, as well as licensing. Adverse changes in general market conditions for advertising continue to affect revenues. Advertising revenues at the News and Information Services segment are also subject to seasonality, with revenues typically being highest in the Company's second fiscal quarter due to the end-of-year holiday season in its main operating geographies. Circulation and subscription revenues can be greatly affected by changes in the prices of the Company's and/or competitors' products, as well as by promotional activities.

Operating expenses include costs related to paper, production, distribution, third party printing, editorial, commissions and radio sports rights. Selling, general and administrative expenses include promotional expenses, salaries, employee benefits, rent and other routine overhead.

The News and Information Services segment's advertising volume and rates, circulation and the price of paper are the key variables whose fluctuations can have a material effect on the Company's operating results and cash flow. The Company has to anticipate the level of advertising volume and rates, circulation and paper prices in managing its businesses to maximize operating profit during expanding and contracting economic cycles. The Company continues to be exposed to risks associated with paper used for printing. Paper is a basic commodity and its price is sensitive to the balance of supply and demand. The Company's expenses are affected by the cyclical increases and decreases in the price of paper. The News and Information Services segment's products compete for readership and advertising with local and national competitors and also compete with other media alternatives in their respective markets. Competition for circulation and subscriptions is based on the content of the products provided, pricing and, from time to time, various promotions. The success of these products also depends upon advertisers' judgments as to the most effective use of their advertising budgets. Competition for advertising is based upon the reach of the products, advertising rates and advertiser results. Such judgments are based on factors such as cost, availability of alternative media, distribution and quality of readership demographics.

The Company's traditional print business faces challenges from alternative media formats and shifting consumer preferences. The Company is also exposed to the impact of long-term structural movements in advertising spending, in particular, the move in advertising from print to digital. These alternative media formats could impact the Company's overall performance, positively or negatively. In addition, technologies have been and will continue to be developed that allow users to block advertising on websites and mobile devices, which may impact advertising rates or revenues.

As a multi-platform news provider, the Company recognizes the importance of maximizing revenues from a variety of media formats and platforms, both in terms of paid-for content and in new advertising models, and continues to invest in its digital products. Technologies such as smartphones, tablets and similar devices and their related applications provide continued opportunities for the Company to make its journalism available to a new audience of readers, introduce new or different pricing schemes, and develop its products to continue to attract advertisers and/or affect the relationship between publisher and consumer. The Company continues to develop and implement strategies to exploit its content across a variety of media channels and platforms.

### **Book Publishing**

The Book Publishing segment derives revenues from the sale of general fiction, nonfiction, children's and religious books in the U.S. and internationally. The revenues and operating results of the Book Publishing

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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 *The Sun* and *The Times*. 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.

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.

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 are included within the Digital Real Estate Services segment.

In February 2016, the Company acquired a 92% interest in DIAKRIT International Limited (“DIAKRIT”) for approximately \$40 million in cash. The Company has the option to purchase, and the minority shareholders also 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.

In February 2016, REA Group 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, and as a result, the Company recognized a liability of approximately \$76 million. The acquisition was funded primarily with the proceeds from borrowings under an unsecured syndicated revolving loan facility (the “REA Facility”). (See Note 6 to the Consolidated Financial Statements). 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. During the fiscal year ended June 30, 2016, REA Group recognized a gain of \$29 million related to the revaluation of its previously held equity interest in iProperty in Other, net in the Statements of Operations.

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	<u>416</u>
Fair value of previously held iProperty investment	120
Total fair value	<u>\$536</u>

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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. 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.

(in millions, except %)	For the three months ended September 30,			
	2016	2015	Change	% Change
			Better/(Worse)	
Revenues:				
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 %
Total revenues	1,965	2,014	(49)	(2)%
Operating expenses	(1,157)	(1,199)	42	4 %
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)%
Net income	—	189	(189)	(100)%
Less: Net income attributable to noncontrolling interests	(15)	(14)	(1)	(7)%
<b>Net (loss) income attributable to News Corporation</b>	<b>\$ (15)</b>	<b>\$ 175</b>	<b>\$ (190)</b>	<b>**</b>

\*\* not meaningful

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**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 *Go Set a Watchman* 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.

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**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.

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

\*\* 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	1	5
<b>Total Other, net</b>	<b>\$ 17</b>	<b>\$ 5</b>

**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

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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).

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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:

(in millions, except %)	For the three months ended September 30,			
	2016	2015	Change	% Change
			Better/(Worse)	
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	\$ —	\$ 143	\$ (143)	(100)%

\*\* not meaningful

(in millions)	For the three months ended September 30,			
	2016		2015	
	Revenues	Segment EBITDA	Revenues	Segment EBITDA
News and Information Services	\$ 1,222	\$ 46	\$ 1,290	\$ 83
Book Publishing	389	48	409	42
Digital Real Estate Services	226	67	191	57
Cable Network Programming	128	14	124	28
Other	—	(45)	—	(45)
Total	\$ 1,965	\$ 130	\$ 2,014	\$ 165

*News and Information Services* (62% and 64% of the Company's consolidated revenues in the three months ended September 30, 2016 and 2015, respectively)

(in millions, except %)	For the three months ended September 30,			
	2016	2015	Change	% Change
			Better/(Worse)	
Revenues:				
Advertising	\$ 609	\$ 681	\$ (72)	(11)%
Circulation and subscription	505	524	(19)	(4)%
Other	108	85	23	27 %
<b>Total revenues</b>	<b>1,222</b>	<b>1,290</b>	<b>(68)</b>	<b>(5)%</b>
Operating expenses	(754)	(795)	41	5 %
Selling, general and administrative	(422)	(412)	(10)	(2)%
<b>Segment EBITDA</b>	<b>\$ 46</b>	<b>\$ 83</b>	<b>\$ (37)</b>	<b>(45)%</b>

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Revenues at the News and Information Services segment decreased \$68 million, or 5%, for the three months ended September 30, 2016 as compared to the corresponding period of fiscal 2016. The revenue decrease was mainly due to lower advertising revenues of \$72 million as compared to the corresponding period of fiscal 2016, primarily resulting from weakness in the print advertising market and a \$6 million negative impact from foreign currency fluctuations. Circulation and subscription revenues for the three months ended September 30, 2016 decreased \$19 million as compared to the corresponding period of fiscal 2016 as a result of a \$24 million negative impact from foreign currency fluctuations, which more than offset modest increases in circulation revenues. These decreases were partially offset by an increase in other revenues of \$23 million, primarily due to the acquisition of Unruly, which contributed \$14 million in the three months ended September 30, 2016.

Segment EBITDA at the News and Information Services segment decreased \$37 million, or 45%, for the three months ended September 30, 2016 as compared to the corresponding period of fiscal 2016. The decrease was primarily due to the lower advertising revenues noted above, increased investment spending at Checkout 51 of \$12 million and \$5 million of transaction related costs associated with the acquisition of Wireless Group. The decrease was partially offset by lower newsprint, production and distribution costs and the impact of cost savings initiatives.

*News Corp Australia*

Revenues at the Australian newspapers for the three months ended September 30, 2016 were relatively flat as compared to the corresponding period of fiscal 2016. The impact of foreign currency fluctuations of the U.S. dollar against the Australian dollar resulted in a revenue increase of \$13 million, or 4%. Circulation and subscription revenues increased \$5 million primarily due to the positive impact of foreign currency fluctuations, as price increases and digital subscriber growth offset print volume declines. Advertising revenues decreased \$13 million due to weakness in the print advertising market in Australia, partially offset by the positive impact of foreign currency fluctuations.

*News UK*

For the three months ended September 30, 2016, revenues at the U.K. newspapers decreased 18% as compared to the corresponding period of fiscal 2016. Advertising revenues decreased \$30 million, primarily due to weakness in the print advertising market and the negative impact of foreign currency fluctuations. Circulation and subscription revenues decreased \$28 million due to the negative impact of foreign currency fluctuations, as single-copy volume declines, primarily at *The Sun*, were offset by the impact of cover price increases. The impact of foreign currency fluctuations of the U.S. dollar against the British pound resulted in a revenue decrease of \$49 million, or 15%, for the three months ended September 30, 2016 as compared to the corresponding period of fiscal 2016.

*Dow Jones*

Revenues at Dow Jones decreased 6% for the three months ended September 30, 2016 as compared to the corresponding period of fiscal 2016. Advertising revenues decreased \$25 million due to weakness in the print advertising market. Circulation and subscription revenues increased \$4 million as a result of growth in circulation revenues at *The Wall Street Journal* due to price increases and higher subscription volume. Professional information business revenues were relatively flat as compared to the corresponding period of fiscal 2016. The impact of foreign currency fluctuations of the U.S. dollar against local currencies resulted in a revenue decrease of \$1 million for the three months ended September 30, 2016 as compared to the corresponding period of fiscal 2016.

*News America Marketing*

Revenues at News America Marketing were relatively flat for the three months ended September 30, 2016 as compared to the corresponding period of fiscal 2016, primarily due to decreased revenues for free-standing insert products, largely offset by higher in-store product and digital product revenues.

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

(in millions, except %)	For the three months ended September 30,			
	2016	2015	Change	% Change
	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 *Go Set a Watchman* 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)

(in millions, except %)	For the three months ended September 30,			
	2016	2015	Change	% Change
	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

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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)

(in millions, except %)	For the three months ended September 30,			
	2016	2015	Change	% Change
			Better/(Worse)	
<b>Revenues:</b>				
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

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acceptable terms in the future will be affected by many factors, including: (i) the Company's performance, (ii) its credit rating or absence of a credit rating, (iii) the liquidity of the overall capital markets and (iv) the current state of the economy. There can be no assurances that the Company will continue to have access to the capital markets on acceptable terms. See Part II, "Item 1A. Risk Factors" for further discussion.

As of September 30, 2016, the Company's consolidated assets included \$670 million in cash and cash equivalents that was held by its foreign subsidiaries. \$78 million of this amount is cash not readily accessible by the Company as it is held by REA Group, a majority owned but separately listed public company. REA Group must declare a dividend in order for the Company to have access to its share of REA Group's cash balance. The Company earns income outside the U.S., which is deemed to be permanently reinvested in certain foreign jurisdictions. The Company does not currently intend to repatriate these earnings. Should the Company require more capital in the U.S. than is generated by and/or available to its domestic operations, the Company could elect to transfer funds held in foreign jurisdictions. The transfer of funds from foreign jurisdictions may be cumbersome due to local regulations, foreign exchange controls and withholding taxes. Additionally, the transfer of funds from foreign jurisdictions may result in higher effective tax rates and higher cash paid for income taxes for the Company.

The principal uses of cash that affect the Company's liquidity position include the following: operational expenditures including employee costs and paper purchases; capital expenditures; income tax payments; investments in associated entities and acquisitions. In addition to the acquisitions and dispositions disclosed elsewhere, the Company has evaluated, and expects to continue to evaluate, possible future acquisitions and dispositions of certain businesses. Such transactions may be material and may involve cash, the issuance of the Company's securities or the assumption of indebtedness.

#### ***Issuer Purchases of Equity Securities***

In May 2013, the Company's Board of Directors (the "Board of Directors") authorized the Company to repurchase up to an aggregate of \$500 million of its Class A Common Stock. On May 10, 2015, the Company announced it had begun repurchasing shares of Class A Common Stock under the stock repurchase program. No stock repurchases were made during the three months ended September 30, 2016. Through October 31, 2016, the Company repurchased approximately 5.2 million shares of Class A Common Stock for an aggregate cost of approximately \$71 million. The remaining authorized amount under the stock repurchase program as of October 31, 2016 was approximately \$429 million. All decisions regarding any future stock repurchases are at the sole discretion of a duly appointed committee of the Board of Directors and management. The committee's decisions regarding future stock repurchases will be evaluated from time to time in light of 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 committee may deem relevant. The stock repurchase authorization may be modified, extended, suspended or discontinued at any time by the Board of Directors and the Board of Directors cannot provide any assurances that any additional shares will be repurchased.

#### ***Dividends***

In August 2016, the Board of Directors declared a semi-annual cash dividend of \$0.10 per share for Class A Common Stock and Class B Common Stock. This dividend was paid on October 19, 2016 to stockholders of record at the close of business on September 14, 2016. The timing, declaration, amount and payment of future dividends to stockholders, if any, is within the discretion of the Board of Directors. The Board of Directors' decisions regarding the payment of future dividends will 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.

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**Sources and Uses of Cash—For the three months ended September 30, 2016 versus the three months ended September 30, 2015**

Net cash (used in) provided by operating activities for the three months ended September 30, 2016 and 2015 was as follows (in millions):

<u>For the three months ended September 30,</u>	<u>2016</u>	<u>2015</u>
Net cash (used in) provided by operating activities from continuing operations	\$(268)	\$141

Net cash (used in) provided by operating activities decreased \$409 million for the three months ended September 30, 2016 as compared to the three months ended September 30, 2015. The decrease was primarily due to the NAM Group's settlement payment of \$250 million during the three months ended September 30, 2016, as well as higher working capital due to timing and lower Total Segment EBITDA.

Net cash used in investing activities for the three months ended September 30, 2016 and 2015 was as follows (in millions):

<u>For the three months ended September 30,</u>	<u>2016</u>	<u>2015</u>
Net cash used in investing activities from continuing operations	\$(11)	\$(86)

The Company had net cash used in investing activities of \$11 million for the three months ended September 30, 2016 as compared to net cash used in investing activities of \$86 million for the corresponding period of fiscal 2016. During the three months ended September 30, 2016, the Company used \$283 million of cash for acquisitions, primarily for the acquisition of Wireless Group, and capital expenditures of \$49 million. The net cash used in investing activities for the three months ended September 30, 2016 was partially offset by the utilization of restricted cash for the Wireless Group acquisition of \$315 million.

During the three months ended September 30, 2015, the Company had capital expenditures of \$63 million and used \$16 million of cash for acquisitions, primarily for the acquisition of Checkout 51.

Net cash used in financing activities for the three months ended September 30, 2016 and 2015 was as follows (in millions):

<u>For the three months ended September 30,</u>	<u>2016</u>	<u>2015</u>
Net cash used in financing activities from continuing operations	\$(59)	\$(37)

The change in net cash used in financing activities for the three months ended September 30, 2016 as compared to the net cash used in financing activities in the corresponding period of fiscal 2016 was primarily the result of the repayment of debt assumed in the acquisition of Wireless Group of \$23 million.

**Reconciliation of Free Cash Flow Available to News Corporation**

Free cash flow available to News Corporation is a non-GAAP financial measure defined as net cash (used in) provided by operating activities from continuing operations, less capital expenditures ("free cash flow"), less REA Group free cash flow, plus cash dividends received from REA Group. Free cash flow available to News Corporation excludes cash flows from discontinued operations. Free cash flow should be considered in addition to, not as a substitute for, cash flows from continuing operations and other measures of financial performance reported in accordance with GAAP. Free cash flow 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 free cash flow.

The Company considers free cash flow available to News Corporation to provide useful information to management and investors about the amount of cash that is available to be used to strengthen the Company's

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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,	
	2016	2015
	(in millions)	
Net cash (used in) provided by continuing operating activities	\$ (268)	\$ 141
Less: Capital expenditures	(49)	(63)
	(317)	78
Less: REA Group free cash flow	(28)	(35)
Plus: Cash dividends received from REA Group	28	24
Free cash flow available to News Corporation	\$ (317)	\$ 67

Free cash flow available to News Corporation decreased \$384 million in the three months ended September 30, 2016 to (\$317) million from \$67 million in the corresponding period of fiscal 2016, primarily due to lower cash provided by operating activities as discussed above, partially offset by lower capital expenditures.

### ***Revolving Credit Agreement***

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

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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***

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 Company’s commitments as of September 30, 2016 have not changed significantly from the disclosures included in the 2016 Form 10-K.

***Contingencies***

The Company routinely is involved in various legal proceedings, claims and governmental inspections or investigations, including those discussed below. The outcome of these matters and claims is subject to significant uncertainty, and the Company often cannot predict what the eventual outcome of pending matters will be or the timing of the ultimate resolution of these matters. Fees, expenses, fines, penalties, judgments or settlement costs which might be incurred by the Company in connection with the various proceedings could adversely affect its results of operations and financial condition.

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. The Company recognizes gain contingencies when the gain becomes realized or realizable. For additional details see Note 10 to the Consolidated Financial Statements.

The Company’s operations are subject to tax in various domestic and international jurisdictions and as a matter of course, it 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 financial condition, future results of operations or liquidity. As subsidiaries of 21st Century Fox prior to the Separation, the Company and each of its domestic subsidiaries have joint and several liability with 21st Century Fox for the consolidated U.S.

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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.

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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**

##### *In-Store Marketing and FSI Purchasers*

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.

##### *Valassis Communications, Inc.*

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. On March 30, 2016, the District Court ordered that the Notice in Valassis I and the remaining claims in the NAM Group’s motion to dismiss in Valassis II (the bundling and tying claims in Valassis II were dismissed without prejudice to Valassis’s rights to pursue relief for the claims in Valassis I) be referred to a panel of antitrust experts previously appointed in Valassis I (the “Antitrust Expert Panel”). The Antitrust Expert Panel was convened and, on September 24, 2016, issued a Report and Recommendation recommending that the NAM Group’s motion to dismiss the Valassis II complaint be denied. The Antitrust Expert Panel also scheduled a preliminary hearing in Valassis I for December 19, 2016 and ordered discovery to be completed by November 2017. While it is not possible at this time to predict with any degree of certainty the ultimate outcome of these actions, the NAM Group believes it has been compliant with applicable laws and intends to defend itself vigorously in both actions.

#### **U.K. Newspaper Matters and Related Investigations and Litigation**

As reported in the 2016 Form 10-K, a purported class action lawsuit captioned Wilder v. News Corp. was previously filed against 21st Century Fox, Rupert Murdoch, James Murdoch, Rebekah Brooks, Les Hinton and the Company’s subsidiary, NI Group Limited (now known as News Corp UK & Ireland Limited) in the U.S.

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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 *The News of the World* and seeking compensatory damages, rescission for damages sustained and costs. On September 30, 2015, the District Court dismissed all of plaintiffs' claims and on September 21, 2016, the District Court denied plaintiffs motion for reconsideration. On October 21, 2016, plaintiffs' time to appeal the District Court's decision expired, and the case was closed.

**ITEM 1A. RISK FACTORS**

There have been no material changes to the risk factors disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2016.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

In May 2013, the Company's Board of Directors (the "Board of Directors") authorized the Company to repurchase up to an aggregate of \$500 million of its Class A Common Stock. On May 10, 2015, the Company announced it had begun repurchasing shares of Class A Common Stock under the stock repurchase program. No stock repurchases were made during the three months ended September 30, 2016. Through October 31, 2016, the Company repurchased approximately 5.2 million shares of Class A Common Stock for an aggregate cost of approximately \$71 million. The remaining authorized amount under the stock repurchase program as of October 31, 2016 was approximately \$429 million. All decisions regarding any future stock repurchases are at the sole discretion of a duly appointed committee of the Board of Directors and management. The committee's decisions regarding future stock repurchases will be evaluated from time to time in light of 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 committee may deem relevant. The stock repurchase authorization may be modified, extended, suspended or discontinued at any time by the Board of Directors and the Board of Directors cannot provide any assurances that any additional shares will be repurchased.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

Not applicable.

**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 Exchange Act of 1934, as amended.\*
- 31.2 Chief Financial Officer Certification required by Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as amended.\*
- 32.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes Oxley Act of 2002.\*\*
- 101 The following financial information from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2016 formatted in eXtensible Business Reporting Language: (i) Consolidated Statements of Operations for the three months ended September 30, 2016 and 2015 (unaudited); (ii) Consolidated Statements of Comprehensive Income (Loss) for the three months ended September 30, 2016 and 2015 (unaudited); (iii) Consolidated Balance Sheets at September 30, 2016 (unaudited) and June 30, 2016 (audited); (iv) Consolidated Statements of Cash Flows for the three months ended September 30, 2016 and 2015 (unaudited); and (v) Notes to the Unaudited Consolidated Financial Statements.\*

\* Filed herewith.

\*\* Furnished herewith.

**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  
Bedi Ajay Singh  
Chief Financial Officer

Date: November 8, 2016

**AMENDMENT No. 2**, dated as of July 13, 2016 (this "Amendment"), to the Credit Agreement dated as of October 23, 2013, among NEWS CORPORATION, a Delaware corporation (the "Borrower"), the several banks and other financial institutions or entities from time to time parties to the Credit Agreement (the "Lenders"), JPMORGAN CHASE BANK, N.A. and CITIBANK, N.A., as co-administrative agents, JPMCB as Designated Agent (the "Designated Agent"), and the other parties thereto (as amended on October 23, 2015, and as it may be further amended, restated, modified and supplemented from time to time, the "Credit Agreement"); capitalized terms used and not otherwise defined herein shall have the meanings assigned to such terms in the Credit Agreement.

WHEREAS, the Borrower desires to amend the Credit Agreement on the terms set forth herein;

WHEREAS, Section 8.01 of the Credit Agreement provides that the Borrower and the Required Lenders may amend the Credit Agreement and the other Loan Documents for certain purposes;

NOW, THEREFORE, in consideration of the premises contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound hereby, agree as follows:

Section 1. **Amendment to Credit Agreement**. As of the Amendment No. 2 Effective Date:

(a) Section 1.01 of the Credit Agreement is hereby amended by adding the following definitions in their proper alphabetical order:

"Bail-In Action" means the exercise of any Write-Down and Conversion Powers by the applicable EEA Resolution Authority in respect of any liability of an EEA Financial Institution.

"Bail-In Legislation" means, with respect to any EEA Member Country implementing Article 55 of Directive 2014/59/EU of the European Parliament and of the Council of the European Union, the implementing law for such EEA Member Country from time to time which is described in the EU Bail-In Legislation Schedule.

"EEA Financial Institution" means (a) any institution established in any EEA Member Country which is subject to the supervision of an EEA Resolution Authority, (b) any entity established in an EEA Member Country which is a parent of an institution described in clause (a) of this definition, or (c) any institution established in an EEA Member Country which is a subsidiary of an institution described in clauses (a) or (b) of this definition and is subject to consolidated supervision with its parent;

"EEA Member Country" means any of the member states of the European Union, Iceland, Liechtenstein, and Norway.

“EEA Resolution Authority” means any public administrative authority or any Person entrusted with public administrative authority of any EEA Member Country (including any delegee) having responsibility for the resolution of any EEA Financial Institution.

“EU Bail-In Legislation Schedule” means the EU Bail-In Legislation Schedule published by the Loan Market Association (or any successor Person), as in effect from time to time.

“Write-Down and Conversion Powers” means, with respect to any EEA Resolution Authority, the write-down and conversion powers of such EEA Resolution Authority from time to time under the Bail-In Legislation for the applicable EEA Member Country, which write-down and conversion powers are described in the EU Bail-In Legislation Schedule.

(b) The definition of “Adjusted Operating Income” in Section 1.01 of the Credit Agreement is hereby amended and restated in its entirety with the following:

“Adjusted Operating Income” means, for any period, without duplication, Consolidated Operating Income plus Consolidated depreciation expense plus Consolidated amortization expense, plus all Cash Distributions other than from Subsidiaries plus, to the extent included in Consolidated Operating Income, any non-cash impairments or write-offs of depreciable or amortizable assets relating to property, plant, equipment or intangible assets or impairments or write-offs of goodwill, in each case as determined with respect to the Borrower and its Subsidiaries in accordance with GAAP for such period plus, to the extent included in Consolidated Operating Income, (i) non-cash restructuring expenses and charges (except to the extent representing an accrual for a future cash expenditure) and (ii) other restructuring expenses and charges not to exceed, in the aggregate pursuant to this subclause (ii), the lesser of \$100,000,000 and 10% of Adjusted Operating Income in any Rolling Period plus any non-cash costs or expenses incurred by the Borrower or its Subsidiaries pursuant to any management equity plan or stock option plan, plus expenses and charges in connection with the U.K. Newspaper Matters (as described in the Borrower’s Annual Report on Form 10-K for the fiscal year ended June 30, 2013) incurred (i) on or prior to June 30, 2013, or (ii) after June 30, 2013, in an amount not to exceed \$300,000,000 in the aggregate plus with respect to any Rolling Period that includes the fiscal quarter ending March 31, 2016, expenses and charges in connection with the News America Marketing matters described in Item 1 of Part II to the Borrower’s Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2016, in an amount not to exceed \$280,000,000 in the aggregate plus other litigation expenses and charges (net of any income or gains from other litigation during the applicable Rolling Period) not to exceed, in the aggregate, the lesser of \$180,000,000 and 20% of Adjusted Operating Income in any Rolling Period minus with respect to any Rolling Period that includes the fiscal quarter ending June 30, 2016, any income or gains from the Zillow settlement for the benefit of the Borrower described in the Borrower’s Current Report on Form 8-K filed with the SEC on June 6, 2016 in an amount not to exceed \$125,000,000. For purposes of calculating Adjusted Operating Income for any Rolling Period in connection with the determination of compliance with Section 5.03(a), if during such Rolling Period any member of the Reporting Group shall have made a Material Acquisition or a Material Disposition, Adjusted Operating In-

come for such Rolling Period shall be calculated after giving pro forma effect thereto as if such Material Acquisition or Material Disposition occurred on the first day of such Rolling Period.”

(c) The definition of “Defaulting Lender” in Section 1.01 of the Credit Agreement is hereby amended by adding the following at the end of clause (d)(ii): “, or (iii) become the subject of a Bail-In Action”.

(d) Article VIII of the Credit Agreement is hereby amended by adding the following Section at the end thereof:

“SECTION 8.19. Acknowledgement and Consent to Bail-In of EEA Financial Institutions. Notwithstanding anything to the contrary in any Loan Document or in any other agreement, arrangement or understanding among any such parties, each party hereto acknowledges that any liability of any EEA Financial Institution arising under any Loan Document may be subject to the write-down and conversion powers of an EEA Resolution Authority and agrees and consents to, and acknowledges and agrees to be bound by:

(a) the application of any Write-Down and Conversion Powers by an EEA Resolution Authority to any such liabilities arising hereunder which may be payable to it by any party hereto that is an EEA Financial Institution; and

(b) the effects of any Bail-In Action on any such liability, including, if applicable:

(i) a reduction in full or in part or cancellation of any such liability;

(ii) a conversion of all, or a portion of, such liability into shares or other instruments of ownership in such EEA Financial Institution, its parent entity, or a bridge institution that may be issued to it or otherwise conferred on it, and that such shares or other instruments of ownership will be accepted by it in lieu of any rights with respect to any such liability under this Agreement or any other Loan Document; or

(iii) the variation of the terms of such liability in connection with the exercise of the Write-Down and Conversion Powers of any EEA Resolution Authority.”

Section 2. Representations and Warranties.

(a) On the date hereof, before and after giving effect to this Amendment, each of the representations and warranties in the Credit Agreement and in the other Loan Documents are true and correct in all material respects (except for representations and warranties qualified as to materiality and Material Adverse Effect, which shall be true and correct in all respects) on and as of the date hereof as though made on and as of the date hereof (except to the extent any such representation or warranty specifically relates to an earlier date in which case such representation and warranty shall be accurate in all material respects as of such earlier date).

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

Section 3. **Effectiveness**. Section 1 of this Amendment shall become effective on the date (such date, if any, the “Amendment No. 2 Effective Date”) that the following conditions have been satisfied:

(i) The Borrower shall have paid all reasonable and documented out-of-pocket expenses of the Designated Agent (including the reasonable and documented accrued fees and expenses of one primary counsel to the Designated Agent) invoiced at least three Business Days prior to the Amendment No. 2 Effective Date.

(ii) The Designated Agent shall have received on or before the Amendment No. 2 Effective Date executed counterparts to this Amendment from the Borrower and each of the Required Lenders.

Section 4. **Counterparts**. This Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page to this Amendment by telecopier or other electronic means shall be effective as delivery of a manually executed counterpart of this Amendment.

Section 5. **Applicable Law**. **THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK.**

Section 6. **Headings**. Section and Subsection headings in this Amendment are included herein for convenience of reference only and shall not constitute a part of this Amendment for any other purpose or be given any substantive effect.

Section 7. **Effect of Amendment**. Except as expressly set forth herein, (i) this Amendment shall not by implication or otherwise limit, impair, constitute a waiver of or otherwise affect the rights and remedies of the Lenders or the Designated Agent under the Credit Agreement or any other Loan Document, and (ii) shall not alter, modify, amend or in any way affect any of the terms, conditions, obligations, covenants or agreements contained in the Credit Agreement or any other provision of any other Loan Document. Each and every term, condition, obligation, covenant and agreement contained in the Credit Agreement or any other Loan Document is hereby ratified and re-affirmed in all respects and shall continue in full force and effect as expressly amended hereby. The Borrower reaffirms its obligations under the Loan Documents to which it is party after giving effect to this Amendment. This Amendment shall constitute a Loan Document for purposes of the Credit Agreement and from and after the Amendment No. 2 Effective Date, all references to the Credit Agreement in any Loan Document and all references in the Credit Agreement to “this Agreement”, “hereunder”, “hereof” or words of like import re-

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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* ]

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IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed by their respective authorized officers as of the day and year first above written.

NEWS CORPORATION, as Borrower

By: /s/ Kevin P. Halpin

Name: Kevin P. Halpin

Title: SVP, Deputy CFO

[Signature Page to Amendment]

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

By: /s/ Davide Migliardi

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Name: Davide Migliardi

Title: Vice President

[Signature Page to Amendment]

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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]

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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]

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BANK OF AMERICA, N.A.

By: /s/ Eric Ridgway

Name: Eric Ridgway

Title: Director

[Lender Signature Page to Amendment]

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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]

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GOLDMAN SACHS BANK USA,

By: /s/ Jerry Li

Name: Jerry Li

Title: Authorized Signatory

[Lender Signature Page to Amendment]

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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]

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Lloyds Bank plc,

By: /s/ Erin Doherty

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Name: Erin Doherty  
Title: Assistant Vice President  
Transaction Execution  
Category A  
D006

By: /s/ Daven Popat

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Name: Daven Popat  
Title: Senior Vice President  
Transaction Execution  
Category A  
P003

[Lender Signature Page to Amendment]

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NATIONAL AUSTRALIA BANK,  
(Name of Institution)

By: /s/ Archit Goradia

Name: ARCHIT GORADIA

Title: DIRECTOR, TELCO., MEDIA & INTERNET  
GLOBAL INSTITUTIONAL BANKING.

If a second signature is necessary:

By: \_\_\_\_\_

Name:

Title:

[Lender Signature Page to Amendment]

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Westpac Banking Corporation,

By: /s/ Richard L. Yarnold

Name: Richard L. Yarnold

Title: Director

[Lender Signature Page to Amendment]

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

I, Robert J. Thomson, 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/ Robert J. Thomson

Robert J. Thomson

Chief Executive Officer and Director

**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:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of News Corporation.

November 8, 2016

By: /s/ Robert J. Thomson  
Robert J. Thomson  
Chief Executive Officer and Director

By: /s/ Bedi Ajay Singh  
Bedi Ajay Singh  
Chief Financial Officer