

TWENTY-FIRST CENTURY FOX, INC.
Form 10-Q
February 09, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended December 31, 2015

or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _____ to _____

Commission file number 001-32352

TWENTY-FIRST CENTURY FOX, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or Other Jurisdiction
of Incorporation or Organization)

26-0075658
(I.R.S. Employer
Identification No.)

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

10036
(Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T 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 February 3, 2016, 1,119,446,970 shares of Class A Common Stock, par value \$0.01 per share, and 798,520,953 shares of Class B Common Stock, par value \$0.01 per share, were outstanding.

TWENTY-FIRST CENTURY FOX, INC.

FORM 10-Q

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TWENTY-FIRST CENTURY FOX, INC.

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

For the three months ended For the six months ended

	December 31,		December 31,	
	2015	2014	2015	2014
Revenues	\$ 7,375	\$ 8,055	\$ 13,452	\$ 15,942
Operating expenses	(4,757)	(5,366)	(8,430)	(10,418)
Selling, general and administrative	(903)	(988)	(1,792)	(2,067)
Depreciation and amortization	(130)	(201)	(258)	(477)
Equity earnings of affiliates	12	250	47	629
Interest expense, net	(298)	(310)	(593)	(615)
Interest income	7	9	16	23
Other, net	(142)	5,040	(225)	5,075
Income from continuing operations before income tax expense	1,164	6,489	2,217	8,092
Income tax expense	(414)	(189)	(727)	(692)
Income from continuing operations	750	6,300	1,490	7,400
Loss from discontinued operations, net of tax	(2)	(16)	(5)	(23)
Net income	748	6,284	1,485	7,377
Less: Net income attributable to noncontrolling interests	(76)	(77)	(138)	(133)
Net income attributable to Twenty-First Century Fox, Inc. stockholders	\$ 672	\$ 6,207	\$ 1,347	\$ 7,244
Earnings per share data				
Income from continuing operations attributable to				
Twenty-First Century Fox, Inc. stockholders - basic and diluted	\$ 674	\$ 6,223	\$ 1,352	\$ 7,267
Weighted average shares:				
Basic	1,958	2,150	1,983	2,170
Diluted	1,958	2,152	1,985	2,173
Income from continuing operations attributable to				
Twenty-First Century Fox, Inc. stockholders per share:				
Basic	\$ 0.34	\$ 2.89	\$ 0.68	\$ 3.35
Diluted	\$ 0.34	\$ 2.89	\$ 0.68	\$ 3.34

Net income attributable to Twenty-First Century Fox, Inc.
stockholders per share:

Basic	\$ 0.34	\$ 2.89	\$ 0.68	\$ 3.34
Diluted	\$ 0.34	\$ 2.88	\$ 0.68	\$ 3.33

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

TWENTY-FIRST CENTURY FOX, INC.

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(IN MILLIONS)

	For the three months ended		For the six months ended	
	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014
Net income	\$ 748	\$ 6,284	\$ 1,485	\$ 7,377
Other comprehensive loss, net of tax:				
Foreign currency translation adjustments	(231)	(712)	(375)	(1,612)
Gains on interest rate swap contracts	5	-	-	-
Unrealized holding losses on securities	-	(47)	(4)	(57)
Benefit plan adjustments	6	8	10	14
Other comprehensive loss, net of tax	(220)	(751)	(369)	(1,655)
Comprehensive income	528	5,533	1,116	5,722
Less: Net income attributable to noncontrolling interests ^(a)	(76)	(77)	(138)	(133)
Less: Other comprehensive loss attributable to noncontrolling interests	-	32	-	214
Comprehensive income attributable to Twenty-First Century Fox, Inc. stockholders	\$ 452	\$ 5,488	\$ 978	\$ 5,803

^(a)Net income attributable to noncontrolling interests includes \$32 million and \$29 million for the three months ended December 31, 2015 and 2014, respectively, and \$60 million and \$53 million for the six months ended December 31, 2015 and 2014, respectively, relating to redeemable noncontrolling interests.

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

TWENTY-FIRST CENTURY FOX, INC.

CONSOLIDATED BALANCE SHEETS

(IN MILLIONS, EXCEPT SHARE AND PER SHARE AMOUNTS)

	As of December 31, 2015 (unaudited)	As of June 30, 2015 (audited)
Assets:		
Current assets:		
Cash and cash equivalents	\$ 4,293	\$ 8,428
Receivables, net	6,842	5,912
Inventories, net	3,305	2,749
Other	386	287
Total current assets	14,826	17,376
Non-current assets:		
Receivables, net	410	394
Investments	4,053	4,529
Inventories, net	6,815	6,411
Property, plant and equipment, net	1,668	1,722
Intangible and other long-term assets, net	6,764	6,320
Goodwill	12,716	12,513
Other non-current assets	844	786
Total assets	\$ 48,096	\$ 50,051
Liabilities and Equity:		
Current liabilities:		
Borrowings	\$ 486	\$ 244
Accounts payable, accrued expenses and other current liabilities	3,359	3,937
Participations, residuals and royalties payable	1,781	1,632
Program rights payable	1,098	1,001
Deferred revenue	544	448
Total current liabilities	7,268	7,262
Non-current liabilities:		
Borrowings	19,251	18,795
Other liabilities	3,190	3,105
Deferred income taxes	2,275	2,082

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Redeemable noncontrolling interests	617	621
Commitments and contingencies		
Equity:		
Class A common stock ^(a)	11	12
Class B common stock ^(b)	8	8
Additional paid-in capital	12,573	13,427
Retained earnings	3,851	5,343
Accumulated other comprehensive loss	(1,939)	(1,570)
Total Twenty-First Century Fox, Inc. stockholders' equity	14,504	17,220
Noncontrolling interests	991	966
Total equity	15,495	18,186
Total liabilities and equity	\$ 48,096	\$ 50,051

^(a)Class A common stock, \$0.01 par value per share, 6,000,000,000 shares authorized, 1,132,707,782 shares and 1,239,971,838 shares issued and outstanding, net of 123,687,371 treasury shares at par as of December 31, 2015 and June 30, 2015, respectively.

^(b)Class B common stock, \$0.01 par value per share, 3,000,000,000 shares authorized, 798,520,953 shares issued and outstanding, net of 356,993,807 treasury shares at par as of December 31, 2015 and June 30, 2015.

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

TWENTY-FIRST CENTURY FOX, INC.

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN MILLIONS)

	For the six months ended	
	December 31,	2014
	2015	2014
Operating activities:		
Net income	\$ 1,485	\$ 7,377
Less: Loss from discontinued operations, net of tax	(5)	(23)
Income from continuing operations	1,490	7,400
Adjustments to reconcile income from continuing operations to cash provided by operating activities:		
Depreciation and amortization	258	477
Amortization of cable distribution investments	35	44
Equity-based compensation	119	91
Equity earnings of affiliates	(47)	(629)
Cash distributions received from affiliates	219	221
Other, net	225	(5,075)
CLT20 contract termination costs ^(a)	(420)	-
Deferred income taxes and other taxes	179	(246)
Change in operating assets and liabilities, net of acquisitions and dispositions:		
Receivables and other assets	(1,035)	(809)
Inventories net of program rights payable	(792)	(940)
Accounts payable and other liabilities	1	318
Net cash provided by operating activities from continuing operations	232	852
Investing activities:		
Property, plant and equipment	(92)	(261)
Acquisitions, net of cash acquired	(908)	-
Investments in equity affiliates	(86)	(1,076)
Other investments	(214)	(39)
Proceeds from dispositions, net	-	8,613
Net cash (used in) provided by investing activities from continuing operations	(1,300)	7,237
Financing activities:		
Borrowings	1,124	2,447
Repayment of borrowings	(439)	(2,059)
Excess tax benefit from equity-based compensation	11	48
Repurchase of shares	(3,202)	(2,730)
Dividends paid and distributions	(419)	(436)

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Purchase of subsidiary shares from noncontrolling interests	(62)	(650)
Net cash used in financing activities from continuing operations	(2,987)	(3,380)
Net decrease in cash and cash equivalents from discontinued operations	(10)	(28)
Net (decrease) increase in cash and cash equivalents	(4,065)	4,681
Cash and cash equivalents, beginning of year	8,428	5,415
Exchange movement on cash balances	(70)	(45)
Cash and cash equivalents, end of period	\$ 4,293	\$ 10,051

(a) See Note 12 – Additional Financial Information.

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

TWENTY-FIRST CENTURY FOX, INC.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. BASIS OF PRESENTATION

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

In addition, the Direct Broadcast Satellite Television (“DBS”) segment consisted of the distribution of programming services via satellite, cable and broadband directly to subscribers in Italy, Germany and Austria. The DBS segment consisted entirely of the operations of Sky Italia and Sky Deutschland AG (“Sky Deutschland”) (collectively the “DBS businesses”). On November 12, 2014, Twenty-First Century Fox completed the sale of Sky Italia and its 57% interest in Sky Deutschland to Sky plc (“Sky”). Sky is a pan-European digital television provider, which operates in Italy, Germany, Austria, the United Kingdom and Ireland. Following the sale of the DBS businesses, the Company continues to report in five segments for comparative purposes, and there is no current activity in the DBS segment.

The accompanying Unaudited Consolidated Financial Statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments consisting only of normal recurring adjustments necessary for a fair presentation have been reflected in these Unaudited Consolidated Financial Statements. Operating results for the interim periods presented are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2016.

These interim Unaudited Consolidated Financial Statements and notes thereto should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2015 as filed with the Securities and Exchange Commission (“SEC”) on August 13, 2015 (the “2015 Form 10-K”).

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

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

Certain fiscal 2015 amounts have been reclassified to conform to the fiscal 2016 presentation. Unless indicated otherwise, the information in the notes to the Unaudited Consolidated Financial Statements relate to the Company’s continuing operations.

Recently Adopted and Recently Issued Accounting Guidance

Adopted

In April 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-08, “Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360)” (“ASU 2014-08”). The amendments in ASU 2014-08 provide guidance for the recognition of discontinued operations, change the requirements for reporting discontinued operations in Accounting Standards Codification (“ASC”) 205-20, “Discontinued Operations” (“ASC 205-20”) and require additional disclosures about discontinued operations. ASU 2014-08 is effective on a prospective basis for the Company for interim reporting periods beginning July 1, 2015. Certain disposals that occurred in the past were not reported as discontinued operations as they did not meet the criteria under the superseded accounting guidance. Such disposals would have met the criteria to be reported as discontinued operations in accordance with ASU 2014-08.

Issued

In September 2015, the FASB issued ASU 2015-16, “Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments” (“ASU 2015-16”). The amendments in ASU 2015-16 require that an acquirer recognize adjustments to provisional amounts, that are identified during the measurement period, in the reporting period in which the adjustment amounts are determined. ASU 2015-16 is effective for the Company for the interim reporting periods beginning July 1, 2016. The Company is currently evaluating the impact ASU 2015-16 will have on its consolidated financial statements.

TWENTY-FIRST CENTURY FOX, INC.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

In November 2015, the FASB issued ASU 2015-17, “Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes” (“ASU 2015-17”). The amendments in ASU 2015-17 require that tax liabilities and assets be classified as noncurrent in a classified statement of financial position. ASU 2015-17 is effective for the Company for the interim reporting periods beginning July 1, 2017.

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 the interim reporting periods beginning July 1, 2018. The Company is currently evaluating the impact ASU 2016-01 will have on its consolidated financial statements.

NOTE 2. ACQUISITIONS, DISPOSALS AND OTHER TRANSACTIONS

The Company’s acquisitions support the Company’s strategic priority of increasing its brand presence and reach in key domestic and international markets and acquiring greater control of investments that complement its portfolio of businesses.

For recent acquisitions, the accounting for the business combination is based on provisional amounts and the allocation of the excess purchase price is not final. The amounts allocated to intangibles and goodwill, the estimates of useful lives and the related amortization expense are subject to changes pending the completion of the final valuations of certain assets and liabilities. A change in the purchase price allocations and any estimates of useful lives could result in a change in the value allocated to the intangible assets that could impact future amortization expense.

Fiscal 2016

Acquisitions

National Geographic Partners

In fiscal 2016, the Company, through 21st Century Fox America, Inc. (“21CFA”), a wholly-owned subsidiary of the Company, and the National Geographic Society (“NGS”), formed the entity that became National Geographic Partners, LLC (“National Geographic Partners”), to which, in November 2015, the Company contributed \$625 million in cash and the Company and NGS contributed their existing interests in NGC Network US, LLC, NGC Network International, LLC and NGC Network Latin America, LLC (collectively “NGC Networks”). Prior to the transaction, the Company held a controlling interest in NGC Networks, a consolidated subsidiary. NGS also contributed its publishing, travel and certain other businesses (collectively the “NGS Media Business”) to National Geographic Partners. As part of the transaction, National Geographic Partners also acquired the long-term license for the use of certain trademarks owned by NGS related to the NGC Networks and the NGS Media Business. The Company currently holds a 73% controlling interest in National Geographic Partners. The cash paid to NGS of \$625 million has been preliminarily allocated as follows: approximately \$130 million to the net assets and certain intangible assets of the NGS Media Business, approximately \$440 million to the long-term asset related to the trademark license agreement and approximately \$55 million to the increase in the Company’s interest in National Geographic Partners.

MAA Television Network

In December 2015, the Company acquired the entirety of the broadcast business of MAA Television Network Limited (“MAA TV”), an entity in India that broadcasts and operates Telugu language entertainment channels, for approximately \$346 million in cash including payments toward non-compete agreements. The excess purchase price of approximately \$285 million has been preliminarily allocated, based on a provisional valuation of MAA TV, as follows: approximately \$75 million to intangible assets consisting of multi-channel video programming distributor affiliate agreements and relationships with useful lives of 12 years, advertiser relationships with useful lives of nine years and the MAA TV trade name with a useful life of 10 years; and the balance of the excess representing the goodwill on the transaction included in the Cable Network Programming segment. The goodwill reflects the synergies and increased market penetration expected from combining the operations of MAA TV and the Company.

Fiscal 2015

Acquisitions

trueX media inc.

In February 2015, the Company acquired trueX media inc. (“true[X]”), a video advertising company specializing in consumer engagement and on-demand marketing campaigns, for an estimated total purchase price of approximately \$175 million in cash including deferred payments which are subject to the achievement of service and performance conditions. The excess purchase price of approximately \$125 million has been preliminarily allocated, based on a provisional valuation of true[X], as follows: approximately

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TWENTY-FIRST CENTURY FOX, INC.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

\$30 million to intangible assets and the balance of the excess representing the goodwill on the transaction and other net assets. The goodwill reflects the synergies and increased market penetration expected from combining the operations of true[X] and the Company.

For fiscal 2016 and 2015, as applicable, the incremental revenues and Segment OIBDA (as defined in Note 11 – Segment Information) related to the acquisitions above included in the Company’s consolidated results of operations were not material individually or in the aggregate.

NOTE 3. 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.

Receivables, net consist of:

	As of	As of
	December	June
	31,	30,
	2015	2015
	(in millions)	
Total receivables	\$7,898	\$6,812
Allowances for returns and doubtful accounts	(646)	(506)
Total receivables, net	7,252	6,306
Less: current receivables, net	(6,842)	(5,912)
Non-current receivables, net	\$410	\$394

NOTE 4. INVENTORIES, NET

The Company’s inventories were comprised of the following:

As of	As of
December	June
31,	30,

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	2015	2015
	(in millions)	
Programming rights	\$6,102	\$5,496
DVDs, Blu-rays and other merchandise	75	67
Filmed entertainment costs:		
Films:		
Released	1,321	1,094
Completed, not released	-	27
In production	964	1,170
In development or preproduction	204	185
	2,489	2,476
Television productions:		
Released	968	868
In production	485	252
In development or preproduction	1	1
	1,454	1,121
Total filmed entertainment costs, less accumulated amortization ^(a)	3,943	3,597
Total inventories, net	10,120	9,160
Less: current portion of inventories, net ^(b)	(3,305)	(2,749)
Total non-current inventories, net	\$6,815	\$6,411

^(a) Does not include \$288 million and \$304 million of net intangible film library costs as of December 31, 2015 and June 30, 2015, respectively, which were included in intangible assets subject to amortization in the Consolidated Balance Sheets.

^(b) Current portion of inventories, net as of December 31, 2015 and June 30, 2015 was comprised of programming rights (\$3,230 million and \$2,682 million, respectively), DVDs, Blu-rays and other merchandise.

TWENTY-FIRST CENTURY FOX, INC.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5. INVESTMENTS

The Company's investments were comprised of the following:

		Ownership percentage as of December 31, 2015	As of December 31, 2015	As of June 30, 2015
			(in millions)	
Sky ^{(a)(b)}	European DBS operator	39%	\$3,033	\$3,382
Endemol Shine Group ^(b)	Global multi-platform content provider	50%	609	706
Other investments		various	411	441
Total investments			\$4,053	\$4,529

^(a)The Company's investment in Sky had a market value of \$11 billion as of December 31, 2015 determined using its quoted market price on the London Stock Exchange (a Level 1 measurement as defined in Note 6 – Fair Value).

^(b)Equity method investment.

Sky

In July 2014, the Company participated in Sky's equity offering by purchasing approximately \$900 million of additional shares in Sky and maintained the Company's 39% ownership interest. The Company received dividends of approximately \$210 million from Sky for the six months ended December 31, 2015 and 2014. Included in Equity earnings of affiliates in the Unaudited Consolidated Statements of Operations for the three and six months ended December 31, 2014 was the Company's proportionate share of approximately \$200 million and \$480 million, respectively, of Sky's gains related to the sale of its investments in NGC Network International LLC and ITV plc.

Other

During the six months ended December 31, 2015, the Company invested approximately \$160 million in cash for a minority equity interest in DraftKings, Inc. ("DraftKings"), a leading operator of online fantasy games and contests. The Company accounts for this investment at cost. Contemporaneous with the Company's investment, DraftKings, as part of their wider media program, committed to spend a minimum of \$250 million for media placements on the Company's properties through December 2017. As of December 31, 2015, based on information concerning DraftKings' current valuation in a recent financing transaction, the Company determined that a portion of its investment in DraftKings was impaired and recorded a loss of approximately \$95 million in Other, net in the Unaudited Consolidated Statements of Operations for the three and six months ended December 31, 2015.

NOTE 6. FAIR VALUE

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

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TWENTY-FIRST CENTURY FOX, INC.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

Description	Fair value measurements As of December 31, 2015			
	Total (in millions)	Quoted prices in active markets for identical instruments (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets				
Derivatives ^(a)	\$26	\$ -	\$ 26	\$ -
Liabilities				
Derivatives ^(a)	(13)	-	(13)	-
Contingent consideration ^(b)	(110)	-	-	(110)
Redeemable noncontrolling interests ^(c)	(617)	-	-	(617)
Total	\$ (714)	\$ -	\$ 13	\$ (727)

Description	As of June 30, 2015			
	Total (in millions)	Quoted prices in active markets for identical instruments (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets				
Investments ^(d)	\$18	\$ 18	\$ -	\$ -
Derivatives ^(a)	4	-	4	-
Liabilities				
Derivatives ^(a)	(34)	-	(34)	-
Contingent consideration ^(b)	(114)	-	-	(114)
Redeemable noncontrolling interests ^(c)	(621)	-	-	(621)
Total	\$ (747)	\$ 18	\$ (30)	\$ (735)

(a)

Represents derivatives associated with the Company's foreign currency forward contracts and interest rate swap contracts.

(b) Represents contingent consideration related to the acquisitions of Eredivisie Media & Marketing and SportsTime Ohio in fiscal 2013.

(c) The Company accounts for redeemable noncontrolling interests in accordance with ASC 480-10-S99-3A, "Distinguishing Liabilities from Equity" ("ASC 480-10-S99-3A"), because their exercise is outside the control of the Company. The redeemable noncontrolling interests recorded at fair value are put arrangements held by the noncontrolling interests in certain of the Company's majority-owned sports networks. The Company utilizes the market, income or cost approaches or a combination of these valuation techniques for its Level 3 fair value measures, using observable inputs such as market data obtained from independent sources. To the extent observable inputs are not available, the Company utilizes unobservable inputs based upon the assumptions market participants would use in valuing the asset (liability). As of December 31, 2015, one minority shareholder's put right is currently exercisable and another minority shareholder's put right will become exercisable in March 2016. The remaining redeemable noncontrolling interests are currently not exercisable.

(d) Available-for-sale securities.

TWENTY-FIRST CENTURY FOX, INC.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Financial Instruments

The carrying value of the Company's financial instruments, such as cash and cash equivalents, receivables, payables and cost method investments, approximates fair value. As of December 31, 2015, the carrying value of the Company's investment in DraftKings approximates its fair value, a Level 3 measurement (see Note 5 – Investments under the heading "Other").

	As of December 31, 2015 (in millions)	As of June 30, 2015 (in millions)
Borrowings		
Fair value of borrowings	\$22,254	\$21,998
Carrying value of borrowings	\$19,737	\$19,039

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

Foreign Currency Forward Contracts

The Company uses foreign currency forward contracts primarily to hedge certain exposures to foreign currency exchange rate risks associated with revenues, the cost of producing or acquiring films and television programming as well as its investment in certain foreign operations and equity method investments.

	As of December 31, 2015 (in millions)	As of June 30, 2015 (in millions)
Cash flow hedges		
Notional amount of foreign currency forward contracts	\$1,011	\$903
Fair value of foreign currency forward contracts	\$18	\$(13)

	As of	As of
	December	December
	31,	30,
	2015	2015
	(in	(in
	millions)	millions)
Net investment hedges		
Notional amount of foreign currency forward contracts	\$-	\$198
Fair value of foreign currency forward contracts	\$-	\$(13)

Interest Rate Swap Contracts

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

	As of	As of
	December	June
	31,	30,
	2015	2015
	(in	(in
	millions)	millions)
Cash flow hedges		
Notional amount of interest rate swap contracts	\$712	\$723
Fair value of interest rate swap contracts	\$(5)	\$(4)

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NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

	As of	As of
	December	December
	31, 2015	30, 2014
	(in millions)	
Economic hedges		
Notional amount of interest rate swap contracts	\$-	\$255
Fair value of interest rate swap contracts	\$-	\$-

Unrealized gains on hedging activity, before tax, of \$20 million and \$56 million for the three months ended December 31, 2015 and 2014, respectively, and \$28 million and \$131 million for the six months ended December 31, 2015 and 2014, respectively, are included in other comprehensive loss. For foreign currency forward contracts designated as cash flow hedges, the Company expects to reclassify the cumulative changes in fair values, included in Accumulated other comprehensive loss, within the next three years. For interest rate swap contracts designated as cash flow hedges, the Company expects to reclassify the cumulative changes in fair values, included in Accumulated other comprehensive loss, within the next four years.

Concentrations of Credit Risk

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

The Company's receivables did not represent significant concentrations of credit risk as of December 31, 2015 or June 30, 2015 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 December 31, 2015, the Company did not anticipate nonperformance by any of the counterparties.

NOTE 7. BORROWINGS

Borrowings include bank loans and public debt.

Senior Notes Issued

In October 2015, 21CFA issued \$600 million of 3.70% Senior Notes due 2025 and \$400 million of 4.95% Senior Notes due 2045. The net proceeds of \$987 million were used for general corporate purposes.

Senior Notes Retired

In October 2015, the Company retired \$200 million of 7.60% Senior Notes.

Current Borrowings

Included in Borrowings within Current liabilities as of December 31, 2015 was \$400 million of 8.00% Senior Notes that are due in October 2016 and principal payments on the Yankees Entertainment and Sports Network term loan facility of \$86 million that are due in the next 12 months.

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NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8. STOCKHOLDERS' EQUITY

The following tables summarize changes in stockholders' equity:

	For the three months ended December 31, 2015			For the six months ended December 31, 2015		
	Twenty-First Century Fox stockholders' (in millions)	Noncontrolling interests	Total equity	Twenty-First Century Fox stockholders' (in millions)	Noncontrolling interests	Total equity
Balance, beginning of period	\$ 15,281	\$ 974	\$ 16,255	\$ 17,220	\$ 966	\$ 18,186
Net income	672	44	(a) 716	1,347	78	(a) 1,425
Other comprehensive loss	(220)	-	(220)	(369)	-	(369)
Cancellation of shares, net	(1,331)	-	(1,331)	(3,157)	-	(3,157)
Dividends declared	-	-	-	(299)	-	(299)
Other	102	(27)	(b) 75	(238)	(53)	(b) (291)
Balance, end of period	\$ 14,504	\$ 991	\$ 15,495	\$ 14,504	\$ 991	\$ 15,495

	For the three months ended December 31, 2014			For the six months ended December 31, 2014		
	Twenty-First Century Fox stockholders' (in millions)	Noncontrolling interests	Total equity	Twenty-First Century Fox stockholders' (in millions)	Noncontrolling interests	Total equity
Balance, beginning of period	\$ 16,265	\$ 3,275	\$ 19,540	\$ 17,418	\$ 3,483	\$ 20,901
Net income	6,207	48	(a) 6,255	7,244	80	(a) 7,324
Other comprehensive loss	(719)	(32)	(751)	(1,441)	(214)	(1,655)
Cancellation of shares, net	(1,457)	-	(1,457)	(2,546)	-	(2,546)
Dividends declared	-	-	-	(273)	-	(273)
Purchase of noncontrolling interests ^(c)	(522)	(128)	(650)	(522)	(128)	(650)
Dispositions ^(d)	-	(2,130)	(2,130)	-	(2,130)	(2,130)
Other	39	(58)	(b) (19)	(67)	(116)	(b) (183)
Balance, end of period	\$ 19,813	\$ 975	\$ 20,788	\$ 19,813	\$ 975	\$ 20,788

^(a)Net income attributable to noncontrolling interests excludes \$32 million and \$29 million for the three months ended December 31, 2015 and 2014, respectively, and \$60 million and \$53 million for the six months ended December 31, 2015 and 2014, respectively, relating to redeemable noncontrolling interests which are reflected in temporary

equity.

^(b) Other activity attributable to noncontrolling interests excludes \$(31) million and \$(22) million for the three months ended December 31, 2015 and 2014, respectively, and \$(64) million and \$(47) million for the six months ended December 31, 2015 and 2014, respectively, relating to redeemable noncontrolling interests.

^(c) Represents the increase in ownership of NGC Network International LLC and NGC Network Latin America LLC.

^(d) Represents the noncontrolling interest in Sky Deutschland.

Comprehensive Income

Comprehensive income is reported in the Unaudited Consolidated Statements of Comprehensive Income and consists of Net income and Other comprehensive (loss) income, including foreign currency translation adjustments, gains and losses on interest rate swap contracts, unrealized holding gains and losses on securities and benefit plan adjustments, which affect stockholders' equity, and under GAAP, are excluded from Net income.

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

	For the three months ended December 31, 2015		For the six months ended December 31, 2015	
	Before tax (benefit (provision))	Net of tax	Before tax (benefit (provision))	Net of tax
Foreign currency translation adjustments				
Unrealized losses				