FOX ENTERTAINMENT GROUP INC
Form 10-K
September 10, 2004

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended June 30, 2004

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 1-14595

FOX ENTERTAINMENT GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware	**95-4066193**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
1211 Avenue of the Americas, New York, New York	**10036**
(Address of principal executive offices)	**(Zip Code)**

(212) 852-7111

Registrant s telephone number, including area code

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Class A Common Stock, $.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

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 x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes x No ¨

The aggregate market value of the Class A common stock and the Class B common stock held by non-affiliates of the registrant as of December 31, 2003 was approximately $5,094,736,607.40 (based on the closing price on such date as reported on the New York Stock

Exchange Composite Transactions).

As of September 10, 2004, 426,959,080 shares of Class A Common Stock, par value $.01 per share, and 547,500,000 shares of Class B Common Stock, par value $.01 per share, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Fox Entertainment Group, Inc. s proxy statement to be filed with the Securities and Exchange Commission within 120 days of June 30, 2004 pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, are incorporated by reference into Part III of this report.

PART I

ITEM 1. BUSINESS

Background

Fox Entertainment Group, Inc. (together with its direct and indirect subsidiaries, and their respective predecessors, unless the context otherwise requires, the Company) is a multi-faceted entertainment company with operations in four business segments: (i) Filmed Entertainment; (ii) Television Stations; (iii) Television Broadcast Network; and (iv) Cable Network Programming. For financial information regarding the Company s segments and operations in geographic areas see Item 8. Financial Statements and Supplementary Data Note 20 to the Consolidated Financial Statements.

The News Corporation Limited (News Corporation), an Australian corporation, is the beneficial owner of 252,159,080 shares of Class A Common Stock and 547,500,000 shares of Class B Common Stock, which in the aggregate represents approximately 82.06% of the equity and 97.04% of the voting power of the Company. News Corporation has announced that its Board of Directors has approved a reorganization transaction which will result in its place of incorporation being in the United States. This reorganization transaction, subject to the approval of shareholders, optionholders and the Australian Federal Court, as well as certain other conditions, is expected to be completed prior to the end of this calendar year.

The address of the Company s principal executive offices is 1211 Avenue of the Americas, New York, New York 10036, and its telephone number is (212) 852-7111. The Company s website is *www.fox.com*. The Company makes available, free of charge, through its Internet website, its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission. The Company maintains a 52-53 week fiscal year ending on the Sunday nearest to June 30 in each year. At June 30, 2004, the Company had approximately 12,500 full-time and part-time employees.

Special Note Regarding Forward-Looking Statements

This document contains statements that constitute forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended. The words expect, estimate, anticipate, predict, believe an similar expressions and variations thereof are intended to identify forward-looking statements. These statements appear in a number of places in this document and include statements regarding the intent, belief or current expectations of the Company, its directors or its officers with respect to, among other things, trends affecting the Company s financial condition or results of operations. The readers of this document are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties. Those risks and uncertainties are discussed under the heading Risk Factors in the Company s Registration Statement on Form S-3 (SEC file no. 333-85978) as declared effective by the Securities and Exchange Commission on May 3, 2002, as well as the information set forth below. The Company does not ordinarily make projections of its future operating results and undertakes no 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 the risk factors referred to above and the other documents filed by the Company with the Securities and Exchange Commission. This section should be read in conjunction with the audited consolidated condensed financial statements of the Company and related notes set forth elsewhere herein.

Business

Filmed Entertainment

The Company engages in feature film and television production and distribution principally through the following businesses: (i) Fox Filmed Entertainment (FFE), a producer and distributor of feature films, including those produced by its divisions and subsidiaries

Twentieth Century Fox, Fox 2000, Fox Searchlight Pictures and Twentieth Century Fox Animation, and a distributor of television programming, including network television programming produced by its division Twentieth Century Fox Television (TCFTV); (ii) Twentieth Television, a distributor of television programming and feature films, including those produced by its production companies; and (iii) Fox Television Studios (FtvS), a producer of broadcast and cable programming.

Fox Filmed Entertainment / Motion Picture Production and Distribution

One of the world s largest producers and distributors of motion pictures, FFE produces, acquires and distributes motion pictures throughout the world under a variety of arrangements. During fiscal 2002, 2003 and 2004, FFE placed 22, 23 and 24 motion pictures, respectively, in general release in the United States. Those motion pictures were produced or acquired by the following units of FFE: Twentieth Century Fox and Fox 2000, which produce motion pictures for mainstream audiences; Fox Searchlight Pictures, which produces and acquires specialized motion pictures; and Twentieth Century Fox Animation, which produces feature length animated motion pictures. Motion pictures produced and/or distributed by FFE in the United States and international territories since the beginning of fiscal 2002 include *Planet of the Apes, Ice Age, Star Wars Episode II: Attack of the Clones*, *Minority Report* (together with DreamWorks SKG), *Road to Perdition* (together with DreamWorks SKG), *X-2: X-Men United*, *Daredevil*, *28 Days Later*, *Bend it Like Beckham, League of Extraordinary Gentlemen, Master and Commander* (together with Universal Studios and Miramax Film Corp.), *Cheaper by the Dozen*, *Man on Fire* (co-financed with New Regency), *The Day After Tomorrow*, *Garfield, Dodgeball: A True Underdog Story, Thirteen, Johnson Family Vacation* and *Napoleon Dynamite* (together with Paramount Pictures Corporation and MTV). The Company has already released or currently plans to release approximately 30 motion pictures in the United States in fiscal 2005, including *I, Robot, Alien vs. Predator, Robots, Star Wars Episode III: Revenge of the Sith, Kingdom of Heaven, Electra* (co-financed with New Regency), *Fat Albert* and *Garden State* (together with Miramax Film Corp.).

In addition, pursuant to an agreement with Monarchy Enterprises Holdings B.V. (MEH), the parent company of Regency Entertainment (USA), Inc. (New Regency) in which the Company has a 20% interest, FFE distributes certain New Regency films and all films co-financed by the Company and New Regency in all media worldwide, excluding certain international territories with respect to theatrical and home video rights and most international territories with respect to television rights. Among its 2005 releases, the Company currently expects to release five New Regency films, two of which are co-financed by the Company and New Regency.

Motion picture companies, such as FFE, typically seek to generate revenues from various distribution channels. FFE derives its worldwide motion picture revenues primarily from four basic sources (set forth in general chronology of exploitation): (i) distribution of motion pictures for theatrical exhibition in the United States and Canada and markets outside of the United States and Canada (International markets); (ii) distribution of motion pictures in various home media formats; (iii) distribution of motion pictures for exhibition on pay-per-view, video-on-demand and premium pay television programming services; and (iv) distribution of motion pictures for exhibition on free television networks, other broadcast program services, independent television stations and basic cable programming services, including certain services which are affiliates of the Company and News Corporation. The Company does not always have rights in all media of exhibition to all motion pictures which it releases, and does not necessarily distribute a given motion picture in all of the foregoing media in all markets.

The Company distributes and markets its films worldwide principally through its own distribution and marketing companies. The Company believes that the pre-release marketing of a feature film is an integral part of its motion picture distribution strategy and generally begins marketing efforts three to six months in advance of a film s release date in any given territory.

Through Twentieth Century Fox Home Entertainment, Inc., the Company distributes motion pictures and other programming produced by units of FFE, its affiliates and other producers in the United States, Canada and International markets in all home media formats, including the sale and rental of DVDs and videocassettes. In fiscal 2004, the domestic home entertainment division released or re-released over 500 produced and acquired titles, including 26 new FFE film releases, approximately 315 catalog titles and approximately 160 television and non-theatrical titles. In International markets, the Company distributed, produced and acquired

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titles both directly and through foreign distribution channels, with approximately 725 releases in fiscal 2004, including approximately 22 new FFE film releases, over 350 catalog titles and approximately 350 television and non-theatrical releases. In addition, the Company continued an agreement with Metro-Goldwyn-Mayer (MGM) to distribute its video product in certain international markets in return for fees. The Company released nearly 450 MGM Home Entertainment theatrical, catalog and television programs internationally in fiscal 2004.

Units of FFE license motion pictures and other programs in the United States, Canada and International markets to various third party and certain affiliated subscription pay television services, pay-per-view services and video-on-demand services. The license agreements reflecting the subscription pay television arrangements generally provide for a specified number of exhibitions of the program during a fixed term in exchange for a license fee, which is based on a variety of factors, including the box office performance of each program and the number of subscribers to the service or system. The license agreements reflecting the pay-per-view and video-on-demand arrangements generally provide for a license fee based on a percentage of the licensee s gross receipts from the exhibition of the program, and in some cases, a guaranteed minimum fee. In addition, these agreements generally provide for a minimum number of scheduled pay-per-view exhibitions and a minimum video-on-demand exhibition period during a fixed term. Among third-party license agreements that units of FFE have in place in the United States for television exhibition of its motion pictures are exclusive subscription pay television license agreements with Home Box Office (HBO), providing for the licensing of films initially released for theatrical exhibition through the year 2009, as well as arrangements with the Starz Encore Group. Units of FFE also license motion pictures in the United States to direct broadcast satellite (DBS) pay-per-view services operated by The DIRECTV Group, Inc. (DIRECTV) and EchoStar Communications Corporation, as well as to pay-per-view and video-on-demand services operated by iN Demand L.L.C. In addition, in International markets, units of FFE license motion pictures to leading third-party pay television services and pay-per-view services as well as to emerging video-on-demand services and programming services operated by various affiliated entities.

Units of FFE also license motion pictures to broadcast television networks, including the Fox Broadcasting Company (FOX), independent broadcast television stations and basic cable networks, pursuant to agreements which generally allow a fixed number of telecasts of a motion picture over a fixed term in exchange for a specified license fee.

Fox Filmed Entertainment / Television Production and Distribution

During the past three fiscal years, TCFTV produced television programs for the FOX, ABC, CBS, NBC, UPN and WB broadcast television networks. TCFTV currently produces or has orders to produce episodes of the following television series: *Boston Legal* and *Untitled John Stamos Project* for ABC; *Judging Amy, Still Standing* and *Yes Dear* (each co-produced with CBS Worldwide Inc.) for CBS; *24, American Dad, Arrested Development, The Bernie Mac Show* (a co-production with Regency Television), *Family Guy, The Inside, The Jury, King of the Hill, Method & Red* (a co-production with Regency Television), *North Shore, Quintuplets, The Simpsons* and *Tru Calling* for FOX; and *Reba* for the WB. Generally, a network will license a specified number of episodes for exhibition on the network during the license period. All other distribution rights, including international and off-network syndication rights, are typically retained by TCFTV and exercised by other units of the Company.

Generally, television programs are produced under contracts that provide for license fees which may cover only a portion of the anticipated production costs. As these costs have increased in recent years, the resulting deficit between production costs and license fees for domestic first-run programming has also increased. Therefore, additional licensing is often critical to the financial success of a series since the license fee paid by a network generally does not fully recover production costs. Successful network television series are licensed for (i) first-run exhibition in Canadian and International markets, (ii) off-network exhibition in the United States (including in syndication or to cable programmers) and (iii) syndication in International markets. Generally, a series must be broadcast for at least three to four television seasons for there to be a sufficient number of episodes to offer the series in syndication in the United States or to cable and DBS programmers in the United States. The decision of a television network to continue a series through an entire television season or to renew a series for another television season depends largely on the series audience ratings.

Twentieth Television

Twentieth Television licenses both television programming and feature films for domestic syndication. Twentieth Television has a program portfolio that includes original reality and first-run television programming produced by its production companies for sales to the Fox Television Stations, other local stations throughout the United States, the Company s cable network business and basic cable networks. Twentieth Television sells national advertising units retained by Twentieth Television in off-network and first-run programming. Twentieth Television also sells advertising units for DIRECTV. Twentieth Television derives revenue from off-network and first-run program sales in the form of cash license fees paid by both broadcast and cable licensees, and from the sales of national advertising units retained by Twentieth Television in its programs. Twentieth Television s current and future off-network shows include *The Simpsons*, *The X-Files*, *Malcolm in the Middle*, *Yes, Dear, The Bernie Mac Show, Reba, Buffy the Vampire Slayer*, *Angel* and *The Hughleys*. Reality and first-run programming includes *America s Most Wanted*, *Cops*, *Divorce Court*, *Good Day Live*, *Texas Justice*, and *Ambush Makeover*.

Fox Television Studios

Fox Television Studios (FtvS) is a program supplier to the major U.S. broadcast and cable networks, including FX, Sci-Fi, TNT and A&E, as well as a growing number of international networks (including the BBC). FtvS produces or has orders to produce several broadcast series through Regency Television (a partnership with New Regency), including *Malcolm in the Middle*, *The Bernie Mac Show* (a co-production between Regency Television and TCFTV), and *Method & Red* (a co-production between Regency Television and TCFTV) for FOX; *Listen Up* (a co-production with CBS Productions) for CBS; and *Shacking Up* for the WB. FtvS also produces *The Shield* for FX, and has a pilot order from FX for *Thief* (through Regency Television). FtvS has or will produce a variety of television movies/extended series including *Anonymous Rex* for Sci-Fi; *The Grid* for TNT/BBC; and *Riverman* for A&E. The studio produces non-fiction shows including A&E s *Biography* and Animal Planet s *The Most Extreme*. Its international productions include multiple versions of *Temptation Island* and *Joe Millionaire*. FtvS also produces game shows, specials and other forms of programming for U.S. and international broadcasters.

Motion Picture and Television Libraries

The Company s motion picture and television library (the Fox Library) consists of varying rights to over 3,260 previously released motion pictures, of which over 400 have been released since 1980, and many well-known television programs. The motion pictures in the Fox Library include many successful and well-known titles, such as *The Sound of Music*, *Mrs. Doubtfire, Planet of the Apes, Dr. Dolittle, X-Men, The Day After Tomorrow* and eight of the top 23 domestic box office grossing films of all time, which are *Titanic* (together with Paramount Pictures Corporation), *Star Wars Episode I: The Phantom Menace*, *Independence Day*, *Star Wars*, *Return of the Jedi*, *The Empire Strikes Back, Star Wars Episode II: Attack of the Clones* and *Home Alone*. The Company earns significant revenues through licensing of titles in the Fox Library in many distribution channels, including television and home entertainment formats.

The Fox Library contains varying rights to many television series and made-for-television motion pictures. The television programming in the Fox Library consists of such classic series as *Batman*, *The Mary Tyler Moore Show*, *M*A*S*H*, *Hill Street Blues*, *Doogie Howser, M.D.*, *L.A. Law*, *The Wonder Years*, *Picket Fences*, *Room 222*, *Trapper John, M.D.*, *Daniel Boone*, *The X-Files* and *Buffy the Vampire Slayer*, as well as such current hits as *The Simpsons*, *NYPD Blue*, *King of the Hill*, *Judging Amy* (together with CBS Worldwide, Inc.), *Malcolm in the Middle*, *The Bernie Mac Show*, *24*, *The Shield, Yes, Dear, Family Guy, American Idol, The Simple Life, Joe Millionaire* and *The Swan*.

Licensing and Merchandising

Through its licensing and merchandising division, the Company exploits its motion picture and television properties and characters by entering into licensing agreements for merchandising, literary publishing, wireless, video games, themed entertainment and promotional tie-ins. Television series and films which have been licensed and merchandised throughout the world include *The Simpsons*, *The X-Files*, *24*, *Buffy the Vampire Slayer*, *Family Guy*, the *Alien* series of motion pictures, *Titanic*, *Planet of the Apes, Ice Age* and *Robots,* as well as a complete library of classic movies.

Fox Music and Music Publishing

Fox Music produces and licenses, for distribution through third parties, soundtracks of the Company s motion picture and television productions. Among the Company s successful soundtrack releases are *Titanic, Romeo + Juliet, Waiting to Exhale, Ally McBeal, Master and Commander, Brown Sugar, Moulin Rouge* and *Daredevil.* In addition, Fox Music Publishing generally owns the publishing rights for songs and scores commissioned for the Company s filmed entertainment. Fox Music Publishing licenses these rights to third parties for extensive multimedia uses.

Television Stations

Fox Television Stations currently owns and operates 35 full power stations including stations located in nine of the top 10 largest designated market areas (DMAs). Fox Television Stations owns and operates two stations in nine DMAs, including New York, Los Angeles, and Chicago, the first, second, and third largest DMAs, respectively.

Fox Television Stations owns and operates stations that are affiliated with the United Paramount Network (UPN) in nine markets, including four of the top 10 DMAs. The affiliation agreements with UPN generally extend through the 2005-2006 season. UPN provides approximately 13 hours of programming a week, including two-hour prime time programming blocks five nights a week, to its affiliates. The remaining stations owned by Fox Television Stations are FOX affiliates. For a description of FOX programming, see Television Broadcast Network .

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The following table lists certain information about each Fox Television Station. Unless otherwise noted, all stations are FOX affiliates.

	DMA/RANK	STATION	CHANNEL/TYPE		PERCENTAGE OF U.S. TELEVISION HOUSEHOLDS REACHED(1)
New York, NY	1	WNYW	5	VHF	6.8%
		WWOR(2)	9	VHF	
Los Angeles, CA	2	KTTV	11	VHF	5.0%
		KCOP(2)	13	VHF	
Chicago, IL	3	WFLD	32	UHF	3.1%
		WPWR(2)	50	UHF	
Philadelphia, PA	4	WTXF	29	UHF	2.7%
Boston, MA	6	WFXT	25	UHF	2.2%
Dallas, TX	7	KDFW	4	VHF	2.1%
		KDFI(3)	27	UHF	
Washington, DC	8	WTTG	5	VHF	2.1%
		WDCA(2)	20	UHF	
Atlanta, GA	9	WAGA	5	VHF	1.9%
Detroit, MI	10	WJBK	2	VHF	1.8%
Houston, TX	11	KRIV	26	UHF	1.7%
		KTXH(2)	20	UHF	
Tampa, FL	13	WTVT	13	VHF	1.5%
Minneapolis, MN (4)	14	KMSP	9	VHF	1.5%
		WFTC(2)	29	UHF	
Phoenix, AZ	15	KSAZ	10	VHF	1.4%
		KUTP(2)	45	UHF	
Cleveland, OH	16	WJW	8	VHF	1.4%
Denver, CO(5)	18	KDVR	31	UHF	1.3%
Orlando, FL	20	WOFL	35	UHF	1.1%
		WRBW(2)	65	UHF	
St. Louis, MO	21	KTVI	2	VHF	1.2%
Baltimore, MD	23	WUTB(2)	24	VHF	1.0%
Milwaukee, WI	33	WITI	6	VHF	0.8%
Kansas City, MO	31	WDAF	4	VHF	0.8%
Salt Lake City, UT	36	KSTU	13	VHF	0.7%
Birmingham, AL	40	WBRC	6	VHF	0.6%
Memphis, TN	43	WHBQ	13	VHF	0.6%
Greensboro, NC	46	WGHP	8	VHF	0.6%
Austin, TX	54	KTBC	7	VHF	0.5%
Gainesville, FL	162	WOGX	51	UHF	0.1%
Total:					44.5%

Source: Nielsen Media Research, January 2004

(1) VHF television stations transmit on Channels 2 through 13 and UHF television stations on Channels 14 through 69. UHF television stations in many cases have a weaker signal and therefore do not achieve the same coverage as VHF television stations. To address this disparity, the FCC ownership rule applies a UHF discount (the UHF Discount) which attributes only 50% of the television households in a local television market to the audience reach of a UHF television station for purposes of calculating whether that station s owner complies with the national station ownership cap imposed by FCC regulations and by statute. In addition, the coverage of two commonly owned stations in the same market is only counted once. The percentages listed are rounded and do not take into account the UHF Discount. For more information regarding the FCC s national station ownership cap, see Regulation Television Stations and Television Broadcast Network.

(2) UPN affiliate.

(3) Independent station and secondary FOX affiliate, carrying children s programming provided by FOX.

(4) The Company also owns and operates KFTC, Channel 26, Bemidji, MN as a satellite station of WFTC, Channel 29, Minneapolis, MN.

(5) The Company also owns and operates KFCT, Channel 22, Fort Collins, CO, as a satellite station of KDVR, Channel 31, Denver, CO.

The Fox Television Stations derive substantially all of their revenues from national spot and local advertising. Advertising rates are determined by each Fox Television Station based on market conditions in the area which it serves. In addition to cash sales, the Fox Television Stations enter into customary agreements with syndicators, pursuant to which the Fox Television Stations acquire programming and the rights to sell a specified amount of advertising time for use in national spot and local advertising markets in exchange for allowing the syndicator to retain a specified amount of advertising time for sale in the national advertising market in lieu of, or in addition to, cash consideration.

Television Broadcast Network

FOX has 196 affiliated stations (FOX Affiliates), including 25 full power television stations that are owned by subsidiaries of the Company, which reach, along with Fox Net, a Company-owned cable service which reaches areas not served by an over-the-air FOX affiliate, approximately 98% of all U.S. television households. In general, each week FOX regularly delivers to its affiliates 15 hours of prime-time programming and one hour of late-night programming on Saturday. FOX s prime time programming features such series as *The Simpsons*, *King of the Hill*, *That 70s Show*, *Malcolm in the Middle*, *The OC*, *24* and *The Bernie Mac Show*; unscripted series such as *American Idol*; and various movies and specials. In addition, a significant component of FOX s programming consists of sports programming, with FOX providing to its affiliates live coverage (including post-season) of the National Football Conference of the National Football League (the NFL) and Major League Baseball (MLB) as well as live coverage of the premiere racing series (the Nextel Cup and the Busch series) of the National Association of Stock Car Auto Racing (NASCAR). FOX also provides a four-hour block of children s programming on Saturday morning, programmed by 4Kids Entertainment (4Kids), a children s entertainment company. FOX s agreement with 4Kids extends until the 2005-2006 broadcast season.

FOX derives the majority of its revenues from sales of commercial advertising time in the national advertising marketplace. FOX s programming line-up is intended to appeal primarily to target audiences of 18 to 49-year old adults, the demographic group that advertisers seek to reach most often. During the 2003-2004 broadcast season, FOX ranked second in prime-time programming based on viewership of adults aged 18 to 49 (NBC had a 4.2 rating and a 12 share, FOX had a 4.1 rating and an 11 share, CBS had a 3.9 rating and an 11 share and ABC had a 3.2 rating and a 9 share). The median age of the FOX viewer is 36 years, as compared to 46 years for NBC, 45 years for ABC and 53 years for CBS.

The Company obtains programming for FOX from major television studios and independent television production companies pursuant to license agreements. The terms of such agreements generally provide the Company with the right to broadcast a television series for a minimum of four seasons. FOX licenses its film programming from major film studios and independent film production companies. National sports programming, such as NFL, MLB and NASCAR programming, is obtained under license agreements with professional sports leagues or organizations. The Company s current licenses with the NFL, MLB, and NASCAR extend until the 2005-2006 NFL season, the 2006 MLB season, and the 2008 NASCAR season, respectively, assuming no early terminations.

FOX provides programming to the FOX Affiliates in accordance with affiliation agreements of varying durations, which grant to each affiliate the right to broadcast network television programming on the affiliated station. Such agreements typically run three or more years and have staggered expiration dates. These affiliation agreements generally require primary FOX Affiliates to carry FOX programming in all time periods in which FOX programming is offered to such affiliates, subject to certain exceptions stated in the affiliation agreements. In 2003, FOX renewed agreements with FOX Affiliates primarily relating to the amount of commercial advertising time FOX provides them in NFL programming and the affiliates contributions toward the cost of those rights.

Cable Network Programming

The Company holds interests in cable network programming businesses in the areas of news, sports, general entertainment and movies. The Fox Cable Networks Group includes all of the Company s cable network programming businesses other than the Fox News Channel.

Fox News Channel

Fox News Channel (Fox News) is a 24-hour all news cable channel which is currently available to approximately 85.2 million U.S. cable and DBS households. Fox News also produces a weekend political commentary show, *Fox News Sunday*, for broadcast on FOX. Fox News, through its Fox News Edge service, licenses news feeds to Fox Affiliates and other subscribers to use as part of local news broadcasts. Fox News has also launched the national Fox News Radio Network which licenses hourly updates and long form programs to local radio stations.

Fox Cable Networks Group

Fox Cable Networks Group owns, through its subsidiaries and various joint ventures, interests in 19 regional sports networks (RSNs), eight nationally-delivered sports and entertainment networks and other related businesses. In addition, Fox Cable Networks Group recently announced its plans to launch a new 24-hour national programming service in early 2005, the Fox Reality Channel.

Sports Programming Operations. Fox Sports Net, Inc. (FSN) is the largest RSN programmer in the United States focusing on live professional and major collegiate home team sports events. FSN s sports programming business consists primarily of ownership interests in 19 RSNs (the Fox Sports RSNs) and National Sports Partners, a partnership between FSN and Rainbow Media Sports Holdings, Inc. (Rainbow), an indirect subsidiary of Cablevision Systems Corporation (Cablevision), which operates Fox Sports Net, a national sports programming service. Fox Sports Net provides its affiliated RSNs with 24-hour national sports programming featuring original and licensed sports-related programming and live and replay sporting events.

FSN owns an equity interest in, or through Fox Sports Net is affiliated with, 21 RSNs. These RSNs reach approximately 81.3 million households (according to Nielsen Media Research) and have rights to telecast live games of 65 professional sports teams in the MLB, the National Basketball Association (NBA) and the National Hockey League (NHL) (out of a total of 81 such teams in the United States) and numerous collegiate conferences and sports teams.

FSN owns a 40% interest in Regional Programming Partners (RPP), a partnership with Rainbow, which owns various interests in RSNs, the New York Knickerbockers NBA franchise, the New York Rangers NHL franchise, the Madison Square Garden entertainment complex in New York, New York, and Radio City Music Hall in New York, New York. In December 2003, the Company sold to RPP the 50% direct interests that RPP did not own in each of the Fox Sports Net Bay Area RSN and the Fox Sports Net Chicago RSN for an aggregate of $150 million. For a discussion of purchase and sale rights related to the investment in RPP, see Item 8 Financial Statements Note 15 Commitments and Contingencies.

FX Network. Launched in June 1994, FX Networks LLC (FX) currently reaches approximately 84.8 million U.S. cable and DBS households according to Nielsen Media Research. FX is a general entertainment network that provides a growing roster of original series and films, as well as acquired television series and motion pictures. In addition, FX carries sports programming with live coverage of certain NASCAR events. FX s line-up for the Fall 2004 season includes the following syndicated shows: *King of the Hill, Fear Factor, Cops, The Practice, Buffy the Vampire Slayer* and *Married with Children;* and the following original programming, the Emmy® and Golden Globe® award winning drama series *The Shield*, the critically-acclaimed drama series *Nip/Tuck,* and the new drama series, *Rescue Me*. Also, slated for this fall is FX s original movie *Smallpox.*

SPEED Channel. Currently reaching approximately 63.2 million U.S. cable and DBS households according to Nielsen Media Research, SPEED Channel focuses on the world of racing, automobile and motorcycle enthusiast programming, including NASCAR races, events and original programming as well as other top racing series, such as Formula One, World Rally, Grand American Road Racing, American Motorcycle Association and Moto GP racing and events.

FUEL. Launched on July 1, 2003 and currently reaching approximately 8.1 million U.S. cable and DBS subscribers, FUEL is a 24-hour programming service dedicated to the world of extreme sports. FUEL covers both competitive and performance action in the arenas of skateboarding, surfing, BMX, freestyle motocross, snowboarding and wakeboarding. Programming includes international extreme sports events and competitions, and original and co-produced series.

Fox College Sports. Fox College Sports (formerly Fox Sports Digital Nets), consists of three regionally-aligned networks, FCS Pacific, FCS Central and FCS Atlantic. Fox College Sports currently reaches approximately 2.9 million subscribers in the U.S. and provides over 800 live collegiate events from the nation s top collegiate conferences, daily regional news and coaches shows to Fox Sports Net affiliated RSNs across the country.

Fox Movie Channel. Currently reaching approximately 23.4 million U.S. cable and DBS subscribers, the Fox Movie Channel (FMC) is Hollywood s first and only studio-based movie network. FMC showcases commercial-free, unedited contemporary hits and classics from the Fox Library, as well as documentaries and series exploring the movie-making process.

Fox Sports International. Fox Sports International owns Fox Sports World, a U.S. programming English-language service devoted to international sports such as soccer and rugby which service is available to approximately 19.2 million cable and DBS subscribers, and Fox Sports World Middle East, an English-language sports network which airs in the Middle East.

Fox Sports International owns approximately 38% of Fox Pan American Sports LLC (FPAS), with Liberty Media Corporation (Liberty) and Hicks, Muse, Tate & Furst Incorporated owning the remainder. FPAS owns and operates Spanish-language sports businesses, including the Fox Sports Latin America network (a Spanish-language sports network distributed to subscribers in certain Caribbean and Central and South American nations outside of Brazil) and Fox Sports en Español (a Spanish-language sports network serving approximately 6.5 million U.S. cable and DBS subscribers).

National Geographic Channel. The Company, NBC and National Geographic Television (NGT) own 50%, 25% and 25% interests, respectively, in NGC Network International, LLC (NGCI), which produces the National Geographic Channel for distribution in various international markets, including certain countries in Europe and Asia. The Company and NGT also own 66.7% and 33.3% interests, respectively, in NGC Network Latin America, LLC, which owns and operates the National Geographic Channel in Latin America. The National Geographic Channel airs documentary programming on such topics as natural history, adventure, science, exploration and culture. The National Geographic Channel is currently shown in approximately 147 countries internationally, excluding the United States. National Geographic programming is provided in Australia, Africa, Israel, the UK, Scandinavia and central and eastern Europe, by a partnership in which British Sky Broadcasting Limited, NBC and NGT are currently partners.

The Company holds a non-controlling 66.67% interest in the National Geographic Channel in the U.S., with NGT holding the remaining interest. The National Geographic Channel currently reaches approximately 51.6 million U.S. cable and DBS households according to Nielsen Media Research.

Recent Transactions

In December 2003, the Company exercised its right to require Discovery Communications, Inc. (Discovery) to purchase the Company s 10% interest in Discovery Health Channel, LLC for a purchase price of approximately $93 million. The Company had acquired this interest in connection with the sale of The Health Network to Discovery in June 2001. This transaction is expected to close in fiscal year 2005, subject to the satisfaction of customary closing conditions.

In February 2004, the Company sold the Los Angeles Dodgers (the Dodgers), together with Dodger Stadium and the team s training facilities in Vero Beach, Florida and the Dominican Republic, to entities owned by Frank McCourt (the McCourt Entities). The gross consideration for the sale of the Dodgers franchise and real estate assets was $421 million, subject to further adjustment. The consideration at closing was comprised of (i) $225 million in cash, (ii) a $125 million two-year note secured by non-team real estate, (iii) a $40 million four-year note secured by bank letters of credit and (iv) a $31 million three-year note that is convertible, at the Company s option, into preferred equity in the McCourt Entities if unpaid at maturity. The Company has agreed to remit $50 million during the first two years following the closing of the transaction to reimburse the McCourt Entities for certain pre-existing commitments. Pending the final determination of contractual adjustments, the sale has resulted in an estimated pre-tax loss of $19 million, which was recorded in Other, net in the Company s results of operations.

In May 2004, the Company sold its 40% interest in the Staples Center, a sports and entertainment complex in Los Angeles, California, and certain related interests for aggregate consideration of $128 million. The Company has recorded a loss on the sale of the interest in the Staples Center of approximately $7 million. In connection with the sale of this interest, the Company was released from several guarantees in the aggregate amount of $22.6 million outstanding at the time of this sale.

In May 2004, the Company acquired a 10% interest in an affiliate of Anschutz Entertainment Group, Inc. that has rights to develop and operate an entertainment and sports complex to be located inside and adjacent to the Millennium Dome in London, England for $25 million.

In September 2004, the Company purchased a 14.6% limited partnership interest in the Colorado Rockies, the MLB franchise in Denver, Colorado, for a purchase price of $20 million.

Affiliate Interests

On December 22, 2003, News Corporation acquired a 34% interest in Hughes Electronics Corporation (Hughes) for total consideration of approximately $6.8 billion. General Motors Corporation (GM) sold its 19.8% interest in Hughes to News Corporation in exchange for approximately $3.1 billion in cash, and 28.6 million American Depositary Shares, each representing four News Corporation preferred limited voting ordinary shares (News Corporation Preferred ADSs), valued at approximately $800 million. News Corporation acquired 14.2% of Hughes from the former GM Class H common stockholders in exchange for approximately 102.1 million News Corporation Preferred ADSs valued at $2.9 billion. Immediately following the acquisition, News Corporation transferred its entire 34% interest in Hughes to the Company in exchange for two promissory notes totaling $4.5 billion and approximately 74.5 million shares of the Company s Class A common stock valued at $2.3 billion. Subsequent to the above transaction, Hughes changed its corporate name to The DIRECTV Group, Inc.

DIRECTV is the largest provider of DBS television services and the second largest multichannel video programming distributor (MVPD), in the U.S., in each case based on the number of subscribers. DIRECTV provides its customers with access to hundreds of channels of digital-quality video and audio programming that are transmitted directly to its customers homes or businesses via high-powered geosynchronous satellites. As of June 30, 2004, DIRECTV had approximately 13.0 million subscribers.

DIRECTV has announced its intentions to focus on the direct-to-home satellite businesses. In August 2004, DIRECTV sold its approximately 80% interest in PanAmSat Corporation to an affiliate of Kohlberg Kravis Roberts & Co. L.P. for approximately $2.6 billion in cash. DIRECTV has disclosed that it is also considering strategic alternatives with regard to other of its investments and operating entities.

Canal Fox. The Company, through its subsidiary Fox Latin American Channel, Inc., operates Canal Fox, a general entertainment cable and satellite service for Latin America covering Mexico and Central and South America. Canal Fox broadcasts in the Portuguese language in Brazil and in the Spanish language in the rest of the territory. The channel s programming line-up consists of motion pictures, series and music specials.

LAPTV. Fox LAPTV, L.L.C., a subsidiary of the Company, owns a 20.2% equity interest in LAPTV, a partnership which distributes three premium pay television channels (Movie City East and West, Cinecanal East and West and its multiplex channel Cinecanal 2) and one basic television channel (The Film Zone East and West) in Latin America (excluding Brazil). Such channels primarily feature theatrical motion pictures of the Company and three other studio partners in the English language with Spanish subtitles.

Telecine. The Company, through its subsidiary Fox Latin America, Inc., owns a 12.5% equity interest in Telecine, Ltda., which distributes five premium pay television channels (Telecine Premium, Telecine Action, Telecine Emotion, Telecine Happy and Telecine Classic) in Brazil. Such channels primarily feature theatrical motion pictures of the Company and three other studio partners in the English language with Portuguese subtitles.

Premium Movie Partnership. The Company, through its subsidiary Twentieth Century Fox Pay Television (Australia) Pty Limited, owns a 20% equity interest in The Premium Movie Partnership, which distributes three premium pay television channels (Showtime and its multiplex channel, Showtime 2, and Showtime Greats) in Australia. Such channels primarily feature theatrical motion pictures of the Company and three other studio partners.

Competition

The Company faces competition from companies within the motion picture and television industry and alternative forms of leisure and entertainment activities. The entertainment industry is also subject to rapid developments in technology and shifting consumer tastes.

Filmed Entertainment

Motion picture and television production and distribution are highly competitive businesses. The Company competes with other film studios, independent production companies and others for the acquisition of artistic properties, the services of creative and technical personnel, exhibition outlets and the public s interest in its products. The number of motion pictures released by the Company s competitors, particularly the other major film studios, in any given period may create an oversupply of product in the market, and that may reduce the Company s shares of gross box office admissions and may make it more difficult for the Company s motion pictures to succeed.

The commercial success of the motion pictures produced and/or distributed by the Company is substantially affected by the public s often unpredictable response to them. In addition, television networks are now producing more programs internally, which may reduce such networks demand for programming from other parties.

Competitive risks affecting the Company s home entertainment business include competition among home video formats, such as DVDs and with other methods of distribution, such as video-on-demand, as well as risks associated with controlling unauthorized copying and distribution of the Company s programs.

Television Stations and Television Broadcast Network

The network television broadcasting business is highly competitive. FOX directly competes for programming and for viewers with ABC, NBC, CBS, and the WB and UPN networks. ABC, NBC and CBS each broadcasts a significantly greater number of hours of programming than FOX and accordingly, may be able to designate or change time periods in which programming is to be broadcast with greater flexibility than FOX. FOX also competes with other non-network sources of television service, including cable television and DBS services. Other sources of competition may include home video exhibition, the Internet and home computer usage. In addition, future technological developments may affect competition within the television marketplace.

FOX competes for advertising revenues with the other broadcast networks, as well as with all other forms of advertising. Each of ABC, NBC and CBS has a greater number of affiliates with VHF signals, which are generally considered to have greater reach in their markets and, therefore, are more appealing to advertisers.

In addition, each of the Fox Television Stations competes for audiences and advertising revenues with radio and television stations and cable systems in its market area and with other advertising media such as newspapers, magazines, outdoor advertising, direct mail and Internet websites. All of the Fox Television Stations are located in highly competitive markets. Additional elements which are material to the competitive position of television stations include management experience, authorized power and assigned frequency. Competition for sales of broadcast advertising time is based primarily on the anticipated and actually delivered size and demographic characteristics of audiences as determined by rating service, price, the time of day when the advertising is to be broadcast, competition from the other broadcast networks, cable television systems, DBS services and other media and general economic conditions. Competition for audiences is based primarily on the selection of programming, the acceptance of which is dependent on the reaction of the viewing public which is often difficult to predict.

Cable Network Programming

General

The cable network programming business is another highly competitive field. Cable programming services compete for distribution and, when distribution is obtained, compete for viewers and advertisers with over-the-air broadcast television, radio, print media, motion picture theaters, videocassettes, DVDs and other sources of information and entertainment. Important competitive factors are the prices charged for programming, the quantity, quality and variety of programming offered and the effectiveness of marketing efforts. More generally, the Company s cable networks compete with various other leisure-time activities such as home videos, movie theaters, personal computers and other alternative sources of entertainment and information.

Fox News Channel

Fox News Channel s primary competition comes from the cable networks CNN, MSNBC, CNBC and Headline News. Fox News also competes for viewers and advertisers within a broad spectrum of television networks, including other cable networks and free over-the-air broadcast television.

Sports Programming

A number of basic and pay television programming services (such as ESPN) as well as free over-the-air stations and broadcast networks provide programming that targets the Fox Sports RSNs audience. Fox Sports Net is currently the only programming service distributing a full range of sports programming on both a national and regional level. On a national level, Fox Sports Net s primary competitor is ESPN, and to a lesser extent, ESPN2. In regional markets, the Fox Sports RSNs compete with other regional sports networks, including those operated by team owners, local broadcast television stations and other sports programming providers and distributors.

In addition, the Fox Sports RSNs and Fox Sports Net compete, to varying degrees, for sports programming rights. The Fox Sports RSNs compete for local and regional rights with local broadcast television stations, other local and regional sports networks and the owners of distribution outlets such as cable television systems. Fox Sport Net competes for national rights with the national broadcast television networks, a number of national cable services that specialize in or carry sports programming, and television superstations, which distribute sports and other programming to cable television systems by satellite, and with independent syndicators that acquire and resell such rights nationally, regionally and locally. The owners of distribution outlets such as cable television systems may also contract directly with the sports teams in their service area for the right to distribute a number of such teams games on their systems.

The owners of teams may also launch their own RSN and contract with cable television systems for carriage. In certain markets, the owners of distribution outlets, such as cable television systems, also own one or more of the professional teams in the region, increasing their ability to launch competing networks and thereby limiting the professional sports rights available for acquisition by the Fox Sports RSNs.

FX

FX faces competition from a number of basic and pay television programming services (such as the USA Network, Turner Network Television, HBO and Showtime) as well as free over-the-air broadcast networks that provide programming that targets the same viewing audience as FX. FX also faces competition in the acquisition of distribution rights to programming.

Other Networks

Generally, Fox s cable networks face competition from other national and regional cable and satellite networks, especially those with programming philosophies directly competitive with those of Fox s cable networks, such as the Discovery Channel (which competes with National Geographic Channel).

Regulation

Filmed Entertainment

FFE is subject to the provisions of so-called trade practice laws in effect in 25 states relating to theatrical distribution of motion pictures. These laws substantially restrict the licensing of motion pictures unless theater owners are first invited to attend a screening of such motion pictures and, in certain instances, also prohibit payment of advances and guarantees to motion picture distributors by exhibitors. Further, pursuant to various consent judgments, FFE and certain other motion picture companies are subject to certain restrictions on their trade practices in the U.S., including a requirement to offer motion pictures for exhibition to theaters on a theater-by-theater basis and, in some cases, a prohibition against the ownership of theaters.

Television Stations and Television Broadcast Network

In general, the television broadcast industry in the U.S. is highly regulated by Federal laws and regulations issued and administered by various Federal agencies, including the FCC. The FCC regulates television broadcast stations pursuant to the Communications Act of 1934, as amended (the Communications Act). The Communications Act permits the operation of television broadcast stations only in accordance with a license issued by the FCC upon a finding that grant of the license would serve the public interest, convenience and necessity. The FCC grants television broadcast station licenses for specific periods of time and, upon application, may renew the licenses for additional terms. Under the Communications Act, television broadcast licenses may be granted for a maximum permitted term of eight years. Generally, the FCC renews broadcast licenses upon finding that (i) the television station has served the public interest, convenience and necessity, (ii) there have been no serious violations by the licensee of the Communications Act or FCC rules and regulations, and (iii) there have been no other violations by the licensee of the Communications Act or FCC rules and regulations which, taken together, indicate a pattern of abuse. After considering these factors, the FCC may grant the license renewal application with or without conditions, including renewal for a term shorter than the maximum otherwise permitted, or hold an evidentiary hearing.

In February 1998, the FCC adopted a final table of digital channel allotments and rules for the implementation of digital television (DTV) service (including high-definition television) in the United States. The digital table of allotments provides each existing full power television station licensee or permittee, including the 35 Fox Television Stations, with a second broadcast channel in order to facilitate a transition from analog to digital transmission, conditioned upon the surrender of one of the channels at the end of the DTV transition period. The FCC and Congress are considering several regulatory and legislative proposals aimed at ensuring a speedy transition to DTV and at establishing a firm timeframe for the surrender of one of the two channels currently allocated to each full power television station. All 35 of the Fox Television Stations have launched digital facilities. Under FCC rules, television stations may use their second channel to broadcast either one or two streams of high definition digital programming or to multicast several streams of standard definition digital programming or a mixture of both. Broadcasters may also deliver data over these channels, provided that such supplemental services do not derogate the mandated, free over-the-air program service. The Company is currently formulating plans for use of its digital channels. It is difficult to assess how digital television will affect the Company s broadcast business with respect to other broadcasters and video program providers.

Under the Communications Act, a broadcast license may not be granted to or held by any corporation that has more than one-fifth of its capital stock owned or voted by non-U.S. citizens or entities or their representatives, by foreign governments or their representatives, or by non-U.S. corporations. The Communications Act further provides that no FCC broadcast license may be granted to any corporation directly or indirectly controlled by any other corporation of which more than one-fourth of its capital stock is owned of record or voted by non-U.S. citizens if the FCC finds the public interest will be served by the refusal of such license. In 1995, the FCC acknowledged that News Corporation owns the vast preponderance of equity of the corporate parent of the Fox Television Stations. The FCC also concluded that Mr. K. Rupert Murdoch, Chairman and Chief Executive of News Corporation, a U.S. citizen, controls the corporate licensee and thus found the level of alien equity to be consistent with the public interest. Mr. Murdoch has 76% voting control of Fox Television Holdings, Inc., the corporate parent of the Fox Television Stations, and News Corporation will continue to hold indirectly stock representing the majority of equity of the corporate licensee. The Restated Certificate of Incorporation of Fox Television Holdings, Inc. provides that the voting capital stock of the company shall only be owned by persons who are citizens of, or incorporated entities formed in, the United States, or would not otherwise disqualify such company or any subsidiary of such company from being issued a television broadcast license by the FCC.

On June 2, 2003, the FCC concluded the 2002 biennial review of its broadcast ownership regulations required by the 1996 Telecom Act by amending its rules governing the ownership of television and radio stations and by replacing its newspaper/broadcast cross-ownership ban and the radio/television cross-ownership restriction with a new set of cross-media ownership limits (the June 2003 Order). Several parties appealed the FCC s biennial review decision and/or petitioned the FCC to reconsider the new rules. On September 3, 2003, the United States Court of Appeals for the Third Circuit issued an Order staying the effectiveness of the new rules.

In the Consolidated Appropriations Act of 2004, Congress increased the national television station ownership cap to permit an entity to have an attributable ownership interest in an unlimited number of television stations nationally so long as the audience reach of such stations does not exceed, in the aggregate and after the application of the UHF Discount, 39% of U.S. television households. The revised national cap permits Fox Television Stations to retain its current complement of owned television stations.

On June 24, 2004, the U.S. Court of Appeals for the Third Circuit remanded the FCC s June 2003 Order for additional justification or modification of the revisions the FCC had made to its ownership regulations. The Court s September 3, 2003 stay remains in effect pending the remand, and therefore the FCC broadcast ownership rules that were operative prior to the June 2003 Order continue to govern station multiple and cross-ownership. Those rules (i) permit the ownership of two television stations with overlapping coverage areas if the stations are in separate DMAs; (ii) permit the ownership of two stations in the same DMA if their Grade B coverage areas do not overlap or if eight independently owned full power television stations will remain in the DMA after the stations that had been independently owned become commonly owned, and one of the merged stations is not among the top four-ranked stations in the market, based on audience share; and (iii) prohibit the common ownership of a broadcast station and a newspaper in the same market. Fox Television Stations is in compliance with the rules governing ownership of multiple stations in the same market. Fox Television Stations retains an attributable interest in the New York Post and two television stations in the New York DMA pursuant to a temporary waiver from the FCC. Notwithstanding the Third Circuit decision, legislative measures have been introduced in Congress to repeal or prevent the implementation of the June 2003 Order. It is not possible to predict the timing or outcome of the FCC s action on remand, Congressional action or their effect on the Company.

FCC regulations implementing the 1992 Cable Act require each television broadcaster to elect, at three-year intervals, either to (i) require carriage of its signal by cable systems in the station s market (must carry) or (ii) negotiate the terms on which such broadcast station would permit transmission of its signal by the cable systems within its market (retransmission consent). The FCC has initiated a rulemaking proceeding to determine carriage requirements for digital broadcast television signals on cable systems, including carriage during the period of transition from analog to digital transmission. The Satellite Home Viewer Improvement Act of 1999 (SHVIA) requires satellite carriers, as of January 1, 2002, to carry upon request all television stations located in markets in which the satellite carrier retransmits at least one local station pursuant to the statutory copyright license provided by SHVIA. FCC regulations implementing this statutory provision require affected stations to either elect mandatory carriage at the same three year intervals applicable to cable must carry or to negotiate carriage terms with satellite operators.

Federal legislation enacted in 1990 limits the amount of commercial matter that may be broadcast during programming designed for children 12 years of age and younger. In addition, under FCC license renewal processing guidelines, television stations are generally required to broadcast a minimum of three hours per week of programming, which, among other requirements, must serve, as a significant purpose, the educational and informational needs of children 16 years of age and under. A television station found not to have complied with the programming requirements or commercial limitations could face sanctions, including monetary fines and the possible non-renewal of its license.

In March 2004, the FCC announced a new policy regarding enforcement of the prohibition against the broadcast of indecent programming on television and radio stations. Under the new policy, the single use of a certain expletive, or variations of that expletive, will be deemed indecent, regardless of context. The FCC also warned broadcasters that serious multiple violations of the indecency prohibition could lead to license revocation proceedings, and that fines could be imposed for each indecent utterance in a single broadcast. The Company and other broadcasters, among others, have asked the FCC to reconsider this new policy on First Amendment grounds.

Several bills have been introduced in Congress relating to program content, including (i) a bill that would increase the fines for the broadcast of obscenity, indecency or profanity to $275,000 per violation up to a maximum of $3 million for a continuing violation; and (ii) a bill that would require the FCC to assess and report to Congress on the effectiveness of the V Chip ratings/blocking technology with respect to televised violence, and, if the V Chip technology is deemed ineffective, to adopt a rule prohibiting the distribution of violent programming on broadcast stations and cable during the hours when children are likely to comprise a substantial portion of the audience. It is not possible to predict the timing or outcome of the FCC s reconsideration of its new indecency policy, of Congressional action on the pending program content-related legislation or of their effect on the Company.

The FCC continues to enforce strictly its regulations concerning political advertising, children s television, equal employment opportunities, environmental concerns, technical operating matters and antenna tower maintenance. In addition, every two years beginning in 2000, FCC regulations require increased amounts of closed captioning (the current level is 1,350 hours of programming per channel per quarter). Although not required by FCC regulation, the Company has committed to provide program ratings information for its broadcast network programming for use in conjunction with V Chip technology. FCC regulations governing network affiliation agreements mandate that television broadcast station licensees retain the right to reject or refuse network programming in certain circumstances or to substitute programming that the licensee reasonably believes to be of greater local or national importance. Violation of FCC regulations can result in substantial monetary forfeitures, periodic reporting conditions, short-term license renewals and, in egregious cases, denial of license renewal or revocation of license.

Cable Network Programming

FCC regulations adopted pursuant to the 1992 Cable Act (the Program Access Rules) prevent a cable operator that has an attributable interest (including voting or non-voting stock ownership of 5% or more or limited partnership equity interests of 5% or more) in a programming vendor from exercising undue or improper influence over the vendor in its dealings with competitors to cable. The Program Access Rules also prohibit a cable programmer in which a cable operator has an attributable interest from entering into exclusive contracts with any cable operator or from discriminating among competing MVPDs in the price, terms and conditions of sale or delivery of programming. As a result of Liberty s ownership interest in News Corporation, Cablevision s interest in RPP and the conditions imposed on the Company by the FCC in connection with News Corporation s acquisition of an interest in Hughes Electronics Corporation, cable networks operated by the Fox Cable Networks Group and Fox News are subject to the Program Access Rules. These regulations therefore restrict the ability of the Company s cable programming services to enter into exclusive contracts. The rules also permit MVPDs (such as cable operators, multi-channel multi-point distribution services (MMDS), satellite master antenna television services (SMATV), DBS and direct-to-home operators) to bring complaints against the Company to the FCC charging they are unable to obtain the affected programming networks on nondiscriminatory terms and conditions.

The FCC s regulations concerning the commercial limits in children s programs also apply to certain cable television programming services carried by cable system operators. The Company provides V Chip program ratings information for many of its cable programming networks. The Company must provide increased closed captioning of its cable programming services to comply with FCC regulations, which could increase its operating expenses.

Program Access Conditions

In connection with its approval of the transfer of licenses controlled by Hughes Electronics Corporation to News Corporation, the FCC imposed the following conditions on the Company relating to the carriage and availability of its broadcast and cable programming services: (i) extended the requirements of the Program Access Rules to DIRECTV; (ii) extended the non-discrimination requirements of the Program Access Rules to any television station owned and operated or represented by the Company with respect to negotiations or agreements for retransmission consent, and required the Company to negotiate in good faith over retransmission consent rights for as long as the Program Access Rules are in effect; (iii) required the Company to enter into commercial arbitration if negotiations with an MVPD over retransmission consent for its television stations signals and/or carriage of the regional sports networks it owns, controls or manages reach an impasse; and (iv) prohibited the Company from unduly or improperly influencing the decision of any affiliated program rights holder (a program rights holder that holds an attributable interest in the Company or in which the Company holds an attributable interest) to sell programming to an unaffiliated MVPD, or the prices, terms and conditions of such a sale.

Internet

The Children s Online Privacy Protection Act of 1998 (COPPA) prohibits web sites from collecting personally identifiable information online from children under age 13 without prior parental consent. The Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003 (CAN-SPAM) regulates the distribution of unsolicited commercial emails, or spam. Online services provided by the Company may be subject to COPPA and CAN-SPAM requirements. Congress and individual states may also consider online privacy legislation that would apply to personal information collected from teens and adults.

ITEM 2. PROPERTIES

The Company maintains executive offices and certain of its operations in each of its business segments at 1211 Avenue of the Americas, New York, New York. These offices cover approximately 327,000 square feet and are provided by News Corporation, which maintains executive offices at such location.

The Company owns the Fox Studios Lot at 10201 West Pico Boulevard, Los Angeles, California, which consists of approximately 54 acres containing 15 sound stages, production facilities, administrative, technical and dressing room structures, screening theaters and machinery equipment facilities and three restaurants. The Company also leases approximately 300,000 square feet of office space at Fox Plaza, located adjacent to the Fox Studios Lot. Each of the Company s business segments, other than the Television Stations segment, utilizes space at the Fox Studios Lot and Fox Plaza.

The Company owns a studio facility in Rosarito, Mexico, which consists of approximately 37 acres containing office space, production facilities and the largest fresh and saltwater tanks used in motion picture production in the world.

Fox Studios Australia has a lease expiring in 2036, with an option to renew for ten years, over a 35-acre film and television production facility with industry related commercial office space in Sydney, Australia. In June 2004, the Company sold its 50% interest in the adjacent cinema and retail complex of approximately 25 acres.

The Company also owns and leases office space, broadcast and production facilities and other ancillary support properties in various cities in the United States and several countries around the world for its businesses. The Company considers its properties adequate for its present needs.

ITEM 3. LEGAL PROCEEDINGS

DIRECTV Transaction

News Corporation was named as a defendant in a Revised Amended Consolidated Complaint filed on May 7, 2004 in a lawsuit captioned In re General Motors (Hughes) Shareholders Litigation, filed in the Court of Chancery of the State of Delaware, Consolidated Civil Action No. 20269-NC. The lawsuit relates to News Corporation s acquisition of stock in Hughes Electronics Corporation on December 22, 2003 which was subsequently transferred to the Company. The complaint alleges that News Corporation aided and abetted an alleged breach of fiduciary duty by the Board of Directors of GM allegedly owed to a class of certain GM shareholders. The plaintiffs allegedly seek appropriate equitable relief including rescissory remedies to the extent feasible . News Corporation believes that the lawsuit is without merit and intends to vigorously defend against claims brought against News Corporation in the lawsuit. News Corporation also believes it is entitled to indemnification by GM under the agreements related to the transaction. On August 30, 2004, News Corporation filed a brief in support of its motion to dismiss the complaint.

Other

The Company experiences routine litigation in the normal course of its business. The Company believes that none of its pending litigation will have a material adverse effect on its consolidated financial condition, future results of operations or liquidity.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

Directors and Executive Officers of the Company

Set forth below is certain information concerning the directors and executive officers of the Company as of September 10, 2004, which information is hereby included in Item 1 of this report.

The Directors and Executive Officers of the Company are as follows:

Name	Age	Position
K. Rupert Murdoch, AC	73	Director, Chairman and Chief Executive Officer
Peter Chernin	53	Director, President, Chief Operating Officer
David F. DeVoe	57	Director, Senior Executive Vice President, Chief Financial Officer
Arthur M. Siskind	65	Director, Senior Executive Vice President, General Counsel
Lachlan K. Murdoch	33	Director, President of Fox Television Stations
Christos M. Cotsakos	56	Director
Thomas W. Jones	55	Director
Peter Powers	60	Director

All of the Executive Officers of the Company are also executive officers of News Corporation. As executive officers of News Corporation, the Executive Officers of the Company continue to render services to News Corporation.

There is no family relationship between any Director or Executive Officer of the Company and any other Director or Executive Officer of the Company except that Lachlan K. Murdoch is a son of K. Rupert Murdoch.

The Senior Executives of the Company (in addition to persons identified as Executive Officers above) are as follows:

Name	Age	Position
Roger Ailes	64	Chairman and Chief Executive Officer of Fox News Channel
James N. Gianopulos	52	Chairman of Fox Filmed Entertainment
David Hill, AM	58	Chairman and Chief Executive Officer of Fox Sports Television Group
Thomas E. Rothman	49	Chairman of Fox Filmed Entertainment
Anthony J. Vinciquerra	50	President and Chief Executive Officer of the Fox Networks Group

Backgrounds of Directors, Executive Officers and Senior Executives

K. Rupert Murdoch, AC has been a Director of the Company since 1985, Chairman since 1992 and Chief Executive Officer of the Company since 1995. Mr. Murdoch has been Chairman of the Board of Directors of News Corporation since 1991, and Director and Chief Executive of News Corporation since its formation in 1979. Mr. Murdoch has served as a Director of News Limited, News Corporation s principal subsidiary in Australia, since 1953, a Director of News International Limited, News Corporation s principal subsidiary in the United Kingdom, since 1969, and a Director of News America Incorporated (NAI), News Corporation s principal subsidiary in the United States (NAI), since 1973. Mr. Murdoch has served as a Director of STAR since 1993 and as Chairman from 1993 to 1998, as a Director of British Sky Broadcasting Group plc (BSkyB) since 1990 and Chairman since 1999. Mr. Murdoch is also a member of the board of directors of Gemstar-TV Guide International, Inc. (Gemstar) since 2001 and Chairman of DIRECTV since December 2003. Mr. Murdoch is Chairman of the Remuneration Committee.

Peter Chernin has been a Director and President and Chief Operating Officer of the Company since 1998. Mr. Chernin has been a Director, President and Chief Operating Officer of News Corporation and a Director, Chairman and Chief Executive Officer of NAI, since 1996. Mr. Chernin was Chairman and Chief Executive Officer of FFE from 1994 until 1996, Chairman of Twentieth Century Fox Film Corporation from 1992 until 1994 and President of

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FOX from 1989 until 1992. Mr. Chernin served as a Director of TV Guide, Inc. from 1999 until 2000 and has served as a director of Gemstar since 2002. Mr. Chernin has served as a director of DIRECTV since December 2003. Mr. Chernin is a member of the Remuneration Committee.

David F. DeVoe has been a Director of the Company since 1991 and Senior Executive Vice President and Chief Financial Officer of the Company since 1998. Mr. DeVoe has been a Director, Chief Financial Officer and Finance Director of News Corporation since 1990 and Senior Executive Vice President of News Corporation since 1996. Mr. DeVoe was an Executive Vice President of News Corporation from 1990 until 1996. Mr. DeVoe has been a Director of NAI since 1991 and a Senior Executive Vice President since 1998. Mr. DeVoe served as Executive Vice President of NAI from 1991 to 1998. Mr. DeVoe has been a Director of Gemstar since 2001, NDS Group plc since 1996, STAR since 1993, BSkyB since 1994 and DIRECTV since December 2003.

Lachlan K. Murdoch has been a Director of the Company since 2002. Mr. Murdoch has been a Director and President of Fox Television Stations since 2002. Mr. Murdoch has been an Executive Director of News Corporation since 1996 and Deputy Chief Operating Officer since 2000. Mr. Murdoch served as a Senior Executive Vice President of News Corporation from 1999 until 2000. Mr. Murdoch has been a Director of News Limited since 1995, Chairman since 1997 and served as Chief Executive from 1997 to 2000, Managing Director from 1996 until 1997 and Deputy Chief Executive from 1995 to 1996. Mr. Murdoch has served as Chairman of Queensland Press Limited since 1996 and a Director since 1994. Mr. Murdoch has been Deputy Chairman of STAR since 1995. Mr. Murdoch has been a Director of NDS Group since 2002, a Director of Gemstar since 2001 and a Director of FOXTEL Management since 1998.

Arthur M. Siskind has been a Director and Senior Executive Vice President and General Counsel of the Company since 1998. Mr. Siskind has been a Director and Group General Counsel of News Corporation since 1991 and a Senior Executive Vice President of News Corporation since 1996. Mr. Siskind served as Executive Vice President of News Corporation from 1991 until 1996. Mr. Siskind has been a Director of NAI since 1991 and a Senior Executive Vice President since 1998. Mr. Siskind served as an Executive Vice President of NAI from 1991 to 1998. Mr. Siskind has been a Director of NDS Group plc since 1996, STAR since 1993 and BSkyB since 1992. Mr. Siskind has been a member of the Bar of the State of New York since 1962.

Christos M. Cotsakos, Ph.D. has been a Director of the Company since 1999. Dr. Cotsakos has been a Managing Partner of Pennington Ventures, LLC since 1999. Dr. Cotsakos served as President, Chief Executive Officer and a Director of E*TRADE Group, Inc. from 1996 until 2003 and Chairman of its Board of Directors from 1998 until 2003. Prior to joining E*TRADE Group, Inc., he served as President, Co-Chief Executive Officer, Chief Operating Officer and a Director of A.C Nielsen, Inc. from 1995 to 1996, as President and Chief Executive Officer of Nielsen International from 1993 to 1995, and as President and Chief Operating Officer of Nielsen Europe, Middle East and Africa from 1992 to 1993. Dr. Cotsakos is Chairman of the Audit Committee.

Thomas W. Jones has served as a Director of the Company since 2001. Mr. Jones has been the Chairman and Chief Executive Officer of Citigroup Global Investment Management since 1999. He is also Chairman and Chief Executive Officer of Citigroup Asset Management. Mr. Jones served as Executive Vice President of Finance and Planning, and Chief Financial Officer for TIAA-CREF between 1989 and 1993, President and Chief Operating Officer from 1993 to 1997 and Vice Chairman and Director from 1995 to 1997, when he joined Travelers Group as Vice Chairman and Director. He is also a Director of Philip Morris Companies Inc. and a Trustee of Cornell University. Mr. Jones is a member of the Audit Committee.

Peter Powers has served as a Director of the Company since 2003. Mr. Powers has been President and Chief Executive Officer of Powers Global Strategies LLC since 1998 and served as First Deputy Mayor of the City of New York from 1994 to 1996. Mr. Powers has also served as a Director of NDS Group plc since 2000. Mr. Powers is a Director of Partnership for New York City, Association for a Better New York, NYC&Co., Central Park Conservancy and Safe Horizons. Mr. Powers is a member of the Audit Committee.

Roger Ailes has served as Chairman and Chief Executive Officer of Fox News Channel since 1996. Prior to joining Fox News in 1996, Mr. Ailes was President of CNBC since 1993 and also served as President of America s Talking, an information talk channel that later became MSNBC.

James N. Gianopulos has been Chairman of FFE since 2000. He shares the position with Thomas E. Rothman. Mr. Gianopulos was President of Twentieth Century Fox International from 1994 until 2000 overseeing both the Theatrical and the Home Entertainment units. Mr. Gianopulos was President of International and Pay Television for Twentieth Century Fox from 1992 to 1994. Mr. Gianopulos serves on the boards of the USC Entertainment Technology Committee, the Motion Picture & Television Fund Foundation and various charitable organizations.

David Hill has served as Chairman and Chief Executive Officer of Fox Sports Television Group since 1999. Mr. Hill served as Chairman and Chief Executive Officer of FOX from 1997 until 1999 and served as President of Fox Sports, a division of Fox Television, from 1993 to 1999. From 1996 until 1997, Mr. Hill has served as Chief Operating Officer of Fox Television. In addition, Mr. Hill has served as Chairman of Fox Sports Networks since 1996. From 1996 through 1997, Mr. Hill also served as the Chief Executive Officer of Fox Sports Networks.

Thomas E. Rothman has been Chairman of FFE since 2000. He shares the position with James N. Gianopulos. Mr. Rothman previously served as President of Twentieth Century Fox Film Group from January to August 2000, and was President of Twentieth Century Fox Production from 1995 to 2000. In 1994, he was the founder and first President of Fox Searchlight Pictures. Mr. Rothman also serves as a member of the Board of Directors of the American Film Institute and as emeritus member of the Board of Directors of the Sundance Institute.

Anthony J. Vinciquerra has served as President and Chief Executive Officer of the Fox Networks Group since 2002. Mr. Vinciquerra joined the Company in 2001 as President of the FOX Television Network. Prior to joining the Company, Mr. Vinciquerra served as Executive Vice President and Chief Operating Officer of Hearst-Argyle Television since 1999. Mr. Vinciquerra joined Hearst Corporation s broadcasting group as Group Executive in 1997 and became Executive Vice President of Hearst-Argyle later that year. Mr. Vinciquerra serves as a member of the Board of Directors of the National Association of Television Program Executives (NATPE) and the Genesis Fund, along with serving as a member of the Board of Trustees of Southern California Public Radio.

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company s Class A Common Stock is listed and traded on the New York Stock Exchange under the symbol FOX . As of August 27, 2004, there were approximately 880 holders of record of the Company s Class A Common Stock.

The following table sets forth, for the periods indicated, the high and low closing sale prices per share of the Company s Class A Common Stock.

Fiscal 2003	High	Low
First Quarter	$ 24.04	$ 17.10
Second Quarter	$ 27.90	$ 20.79
Third Quarter	$ 29.12	$ 24.66
Fourth Quarter	$ 29.82	$ 22.60
Fiscal 2004	**High**	**Low**
First Quarter	$ 32.98	$ 27.65
Second Quarter	$ 31.07	$ 27.08
Third Quarter	$ 32.17	$ 26.54
Fourth Quarter	$ 29.59	$ 25.60
Fiscal 2004	**High**	**Low**
First Quarter (through August 27, 2004)	$ 27.62	$ 25.25

The Company has never declared or paid cash dividends on its Class A Common Stock and it is the Company s present intention to retain earnings to finance the expansion of its business.

There is no established public trading market for the Company s Class B Common Stock. As of August 27, 2004, FEG Holdings, Inc., an indirect wholly-owned subsidiary of News Corporation, owned all 547,500,000 shares of Class B Common Stock of the Company.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data should be read in conjunction with Item 7-Management s Discussion and Analysis of Financial Condition and Results of Operations and Item 8-Financial Statements and Supplementary Data and the other financial information included elsewhere herein.

	FOR THE YEARS ENDED JUNE 30, [1]				
	2004	2003	2002[3]	2001[4]	2000[5]
	(in millions, except per share data)				
STATEMENT OF OPERATIONS DATA:					
Revenues [2]	$ 12,175	$ 11,002	$ 9,725	$ 8,414	$ 8,517
Operating income (loss)	2,298	1,783	(103)	652	656
Income before cumulative effect of accounting change	1,353	1,031	607	206	145
Net income (loss)	1,353	1,031	581	(288)	145
Basic and diluted earnings per share before cumulative effect of accounting change	$ 1.44	$ 1.17	$ 0.72	$ 0.28	$ 0.20
Basic and diluted earnings (loss) per share	$ 1.44	$ 1.17	$ 0.69	$ (0.40)	$ 0.20

	AS OF JUNE 30,				
	2004	2003	2002	2001	2000
	(in millions)				
BALANCE SHEET DATA:					
Cash and cash equivalents	$ 122	$ 72	$ 56	$ 66	$ 114
Total assets	30,048	23,299	22,876	17,856	17,930
Due to affiliates of News Corporation	4,236	704	1,413	2,866	2,739
Borrowings	659		942	1,032	974
Shareholders equity	17,967	14,303	12,095	7,968	8,246

FOOTNOTES:

(1) See footnotes 4 through 6 to the Consolidated Financial Statements of Fox Entertainment Group, Inc. for information with respect to significant acquisitions and disposals during fiscal 2004, 2003 and 2002.

(2) In January 2002, the Company adopted Emerging Issues Task Force (EITF) No. 01-09, Accounting for the Consideration Given by a Vendor to a Customer or a Reseller of the Vendor s Products, which was effective for the Company as of January 1, 2002. As required, the Company has classified the amortization of cable distribution investments against revenues for all periods presented. Operating income (loss), Net income (loss) and Earnings (loss) per share are not affected by this classification. This classification affects the Company s and the Cable Network Programming segment s revenues. The effect of the classification on the Company s revenues is as follows:

	FOR THE YEARS ENDED JUNE 30,				
	2004	2003	2002	2001	2000
	(in millions)				
Gross revenues	$ 12,304	$ 11,127	$ 9,841	$ 8,504	$ 8,589
Amortization of cable distribution investments	(129)	(125)	(116)	(90)	(72)

Revenues	$ 12,175	$ 11,002	$ 9,725	$ 8,414	$ 8,517

(3) Fiscal 2002 also includes the $909 million write-down of the Company s national sports contracts, the pre-tax gain of $1.4 billion on the sale of the Company s interest in Fox Family Worldwide, Inc. (FFW) and the Company s $26 million share of FFW s after-tax cumulative effect of accounting change relating to the adoption of Statement of Position No. (SOP) 00-2.

(4) Fiscal 2001 Net income (loss) and Basic and diluted earnings (loss) per share include the impact of the after-tax charge of $494 million for the cumulative effect of accounting change relating to the Company s adoption of SOP 00-2.

(5) Fiscal 2000 includes the operating results of Fox Sports Networks, LLC, which was fully acquired in July 1999.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION

Management s discussion and analysis of financial condition and results of operations (MD&A) is provided as a supplement to the accompanying consolidated financial statements and footnotes to help provide an understanding of the Fox Entertainment Group, Inc. s (the Company) financial condition, changes in financial condition and results of operations. MD&A is organized as follows:

Overview of our Business - This section provides a general description of the Company s businesses, as well as recent developments that have occurred either during fiscal 2004 or early fiscal 2005 that the Company believes are important in understanding the results of operations and financial condition or to anticipate future trends.

Results of Operations - This section provides an analysis of the Company s results of operations for the three years ended June 30, 2004. This analysis is presented on both a consolidated and a segment basis. In addition, a brief description is provided of significant transactions and events that impact the comparability of the results being analyzed.

Liquidity and Capital Resources - This section provides an analysis of the Company s cash flows for the three years ended June 30, 2004, as well as a discussion of the Company s outstanding debt and commitments, both firm and contingent, that existed as of June 30, 2004. Included in the discussion of outstanding debt is a discussion of the amount of financial capacity available to fund the Company s future commitments, as well as a discussion of other financing arrangements.

Critical Accounting Policies - This section discusses accounting policies considered important to the Company s financial condition and results of operations, and which require significant judgment and estimates on the part of management in application. In addition, the Company s significant accounting policies, including the critical accounting policies, are summarized in Note 2 to the accompanying consolidated financial statements and footnotes.

OVERVIEW OF OUR BUSINESS

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

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

Television Stations, which principally consists of the operation of 35 full power broadcast television stations, including nine duopolies, in the United States. Of these stations, 25 are affiliated with the FOX network, nine with the UPN network and one is an independent station;

Television Broadcast Network, which principally consists of the broadcasting of network programming in the United States; and

Cable Network Programming, which principally consists of the production and licensing of programming distributed through cable television systems and direct broadcast satellite (DBS) operators in the United States.

Filmed Entertainment

The Filmed Entertainment segment derives revenue from theatrical distribution, home entertainment sales and distribution through pay-per-view, pay television services and broadcast television. The revenues and operating results of the Filmed Entertainment segment are significantly affected by the timing of the Company s theatrical and home entertainment releases, the number of its original and returning television series that are aired by television networks, and the number of its television series in off-network syndication. Theatrical release dates are determined by several factors, including timing of vacation and holiday periods and competition in the marketplace.

The home entertainment market, more specifically DVDs, has emerged as the fastest growing revenue stream in the filmed entertainment industry. Industry analysts expect this growth to continue over the next several years. Consistent with industry trends, the Company s DVD revenues rose approximately 58% for the year ended June 30, 2004 over the prior year, with 78% and 22% of DVD revenues generated from the sale and distribution of film titles and television titles, respectively.

Operating costs incurred by the Filmed Entertainment segment include exploitation costs, primarily prints and advertising; the amortization of capitalized production, overhead and interest costs; and participations and talent residuals. Selling, general and administrative expenses include salaries, employee benefits, rent and other routine overhead.

Feature film and television production and distribution are speculative businesses since the revenues derived from the production and distribution of a feature film or television series depend primarily upon their acceptance by the public, which is difficult to predict. The commercial success of a feature film or television series also depends upon the quality and acceptance of other competing films and television series released into the marketplace at or near the same time, the availability of alternative forms of entertainment and leisure time activities, general economic conditions and other tangible and intangible factors, all of which can change and cannot be predicted with certainty. Further, the theatrical success of a feature film and the audience ratings for a television series are generally key factors in generating revenues from other distribution channels, such as home entertainment and premium pay television, with respect to feature films, and syndication, with respect to television series.

Piracy continues to be a significant issue for the filmed entertainment industry, especially from online file sharing, which has expanded from music to movies and television programming due to changes in technology. The Company has taken, and will continue to take, a variety of actions to combat piracy, both individually and together with industry associations.

Television Stations, Television Broadcast Network and Cable Network Programming

The two reportable television segments derive revenues principally from the sale of advertising time. Generally, advertising time is sold to national advertisers by the Fox Broadcasting Company (FOX) and to national spot and local advertisers by the Company s group of 35 owned and operated full power television broadcast stations (O&Os) in their respective markets. The Cable Network Programming segment also derives a portion of its revenues from national and local advertising sales. The sale of advertising time is affected by viewer demographics, program ratings, major sporting events, major political elections and general market conditions. Adverse changes in the general market conditions for advertising may affect revenues and operating results. Expenditures by advertisers tend to be cyclical, reflecting overall economic conditions, as well as budgeting and buying patterns. A decline in the economic prospects of advertisers or the economy in general could alter current or prospective advertisers spending priorities. This could cause our revenues and operating results to decline significantly in any given period.

Rating points for the two reportable television segments and Cable Network Programming segment are factors that are weighed when deciding on the advertising rates and the renegotiation of affiliate rates that the Company receives. Poor ratings can lead to a reduction in pricing and advertising spending. Excluding sports, FOX s ratings were lower in fiscal 2004 as compared to fiscal 2003. The Company is focused on improving its programming lineup to maintain its share of the advertising market. In June 2004, the Company launched its new programming schedule as part of the Company s strategy to provide year-round programming on FOX. The Company launched new programming in June, in an effort to improve ratings, since the other networks do not usually launch new programming during the summer months and because the fall launch of FOX programming is delayed due to the completion of the Major League Baseball (MLB) season and post-season. At the Cable Network Programming segment, we continue to launch new and original programming and continue to examine opportunities to launch new Fox channels. The Company has announced the launch of a new reality cable channel to begin broadcast in fiscal 2005.

In April 2004, Nielsen Media Research (Nielsen) began to transition the existing local television ratings system to the use of Local People Meters (LPMs) in certain large markets. This transition to LPMs has adversely impacted the ratings of the O&Os in the markets where the transition has occurred.

The Cable Network Programming segment derives most of its revenues from monthly affiliate fees received from cable television systems and DBS operators based on the number of its subscribers, net of the amortization of cable distribution investments (capitalized fees paid to a cable operator or DBS operator to facilitate the launch of a cable network). Monthly affiliate fees are dependent on maintenance of the cable networks multi-year carriage arrangements with cable television systems and DBS operators. The loss of a significant number of these arrangements or the loss of carriage on basic programming tiers could reduce the distribution of our cable networks, which may also adversely affect such networks revenues from subscriber fees and our ability to sell national and local advertising time.

The most significant operating expenses of the two reportable television segments and the Cable Network Programming segment are expenses related to acquiring programming and the production and technical expenses related to operating the technical facilities of the broadcaster or cable network. Other expenses include promotional expenses related to improving the market visibility and awareness of the broadcaster or cable network and sales commissions paid to the in-house advertising sales force as well as salaries, employee benefits, rent and other routine overhead.

The sports rights contracts between the Company, on the one hand, and various professional sports leagues and teams, on the other, have varying duration and renewal terms. As these contracts expire, we may seek renewals on commercial terms. However, third parties may outbid the current rights holders for such rights contracts. In addition, professional sports leagues or teams may create their own networks or the renewal costs could substantially exceed the original contract cost. The loss of rights could impact the extent of the sports coverage offered by FOX, its affiliates, and our regional sports networks (RSNs), and could adversely affect our advertising and affiliate revenues. Conversely, if we are able to renew these contracts, our results could be adversely affected if escalations in sports programming rights costs are unmatched by increases in advertising rates and, in the case of cable networks, subscriber fees.

The Company has several multi-year sports rights agreements, including a contract with the National Football League (NFL) through fiscal 2006, contracts with the National Association of Stock Car Auto Racing (NASCAR) through fiscal 2013 and a contract with MLB through fiscal 2007. These contracts provide the Company with the broadcast rights to certain national sporting events during their respective terms. The NASCAR contract contains certain early termination clauses that are exercisable by NASCAR. The costs of these sports contracts are charged to expense based on the ratio of each period s operating profits to estimated total remaining operating profit of the contract.

The Company continually evaluates the recoverability of the rights costs against the revenues directly associated with the program material and related direct expenses over the expected contract lives. At December 31, 2001, the Company recorded an Other operating charge of $909 million. This charge related to a change in accounting estimate on the Company s national sports rights agreements caused by the downturn in the advertising market, which caused the Company to write off programming cost inventory and to provide for estimated losses on these contracts over their estimated terms. This evaluation considered the severe downturn in sports-related advertising, the lack of any sustained advertising rebound subsequent to September 11, 2001 and the industry-wide reduction of projected long-term advertising growth rates, all of which resulted in the Company s estimate of future directly attributable revenues associated with these contracts being lower than previously anticipated. Because the vast majority of costs incurred under these contracts are fixed, such as the rights costs and production costs, the results of these lower revenue estimates indicated that the Company would generate a loss over the estimated remaining term of the sports contracts. The charge by contract was as follows: NFL for $387 million, MLB for $225 million and NASCAR for $297 million.

In accordance with Accounting Principles Board (APB) Opinion No. 20, Accounting Changes, the Company determined that the impact of the charge on Basic and diluted earnings (loss) per share, net of tax benefit of $346 million, for the year ended June 30, 2002 was a loss per share of $0.67.

The profitability of these long-term national sports contracts as discussed above is based on the Company s best estimates at June 30, 2004 of directly attributable revenues and costs; such estimates may change in the future, and such changes may be significant. Should revenues decline from estimates applied at June 30, 2004, an additional loss will be recorded. Should revenues improve as compared to estimated revenues, none of the recorded loss will be restored, but the Company will have a positive operating profit, which will be recognized over the estimated remaining contract term.

While the Company seeks to ensure compliance with federal indecency laws and related Federal Communications Commission (FCC) regulations, the definition of indecency is subject to interpretation and there can be no assurance that the Company will not broadcast programming that is ultimately determined by the FCC to violate the prohibition against indecency. Such programming could subject the Company to regulatory review or investigation, fines, adverse publicity or other sanctions including the loss of station licenses.

RESULTS OF OPERATIONS

Use of Operating income before depreciation and amortization

Operating income before depreciation and amortization, defined as operating income (loss) plus depreciation and amortization and the amortization of cable distribution investments, eliminates the variable effect across all business segments of non-cash depreciation and amortization. Depreciation and amortization expense includes the depreciation of property and equipment, as well as amortization of finite-lived intangible assets. Through fiscal 2002, depreciation and amortization expense also included the amortization of goodwill and indefinite-lived intangible assets. Amortization of cable distribution investments represents a reduction against revenues over the term of a carriage arrangement and as such it is excluded from Operating income before depreciation and amortization. Operating income before depreciation and amortization is a non-GAAP measure and it should be considered in addition to, not as a substitute for, operating income (loss), net income (loss), cash flow and other measures of financial performance reported in accordance with generally accepted accounting principles (GAAP). Operating income before depreciation and amortization does not reflect cash available to fund requirements, and the items excluded from Operating income before depreciation and amortization, such as depreciation and amortization, are significant components in assessing the Company s financial performance.

Management believes that Operating income before depreciation and amortization is an appropriate measure for evaluating the operating performance of the Company s business segments. Operating income before depreciation and amortization, which is the information reported to and used by the Company s chief decision maker for the purpose of making decisions about the allocation of resources to segments and assessing their performance, provides management, investors and equity analysts a measure to analyze operating performance of each business segment and enterprise value against historical and competitors data, although historical results, including Operating income before depreciation and amortization, may not be indicative of future results as operating performance is highly contingent on many factors including customer tastes and preferences.

The following comparative discussion of the results of operations of the Company includes, among other factors, an analysis of changes in business segment Operating income before depreciation and amortization.

Results of Operations Fiscal 2004 versus Fiscal 2003

The following table sets forth the Company s operating results, by segment, for fiscal 2004 as compared to fiscal 2003.

	For the years ended June 30,			
	2004	**2003**	**Change**	**% Change**
		(in millions)		
Revenues: [1]				
Filmed Entertainment	$ 5,210	$ 4,498	$ 712	16%
Television Stations	2,166	2,115	51	2%
Television Broadcast Network	2,390	2,244	146	7%
Cable Network Programming	2,409	2,145	264	12%
Total revenues	**$ 12,175**	**$ 11,002**	**$ 1,173**	**11%**
Operating income (loss):				
Filmed Entertainment	$ 913	$ 662	$ 251	38%
Television Stations	977	921	56	6%
Television Broadcast Network	(80)	(100)	20	20%
Cable Network Programming	488	300	188	63%
Total operating income	**2,298**	**1,783**	**515**	**29%**
Interest expense, net	(166)	(136)	(30)	(22)%
Equity earnings (losses) of affiliates, net	(5)	(1)	(4)	**
Minority interest in subsidiaries	(6)	(29)	23	79%
Other, net	60		60	**
Income before provision for income taxes	**2,181**	**1,617**	**564**	**35%**
Provision for income tax expense on a stand-alone basis	(828)	(586)	(242)	(41)%
Net income	**$ 1,353**	**$ 1,031**	**$ 322**	**31%**
Other data:				
Operating income before depreciation and amortization: [2]				
Filmed Entertainment	$ 967	$ 717	$ 250	35%
Television Stations	1,032	983	49	5%
Television Broadcast Network	(55)	(81)	26	32%

Cable Network Programming	658	472	186	39%
Total operating income before depreciation and amortization	$ 2,602	$ 2,091	$ 511	24%
Depreciation and amortization:				
Filmed Entertainment	$ 54	$ 55	$ (1)	(2)%
Television Stations	55	62	(7)	(11)%
Television Broadcast Network	25	19	6	32%
Cable Network Programming	41	47	(6)	(13)%
Total depreciation and amortization	$ 175	$ 183	$ (8)	(4)%

** not meaningful

FOOTNOTES:

(1) In January 2002, the Company adopted Emerging Issues Task Force No. (EITF) 01-09, Accounting for the Consideration Given by a Vendor to a Customer or a Reseller of the Vendor s Products, which was effective for the Company as of January 1, 2002. As required, the Company has classified the amortization of cable distribution investments against revenues for all periods presented. Operating income, Net income and Earnings per share are not affected by this classification. This classification affects the Company s and the Cable Network Programming segment s revenues. The effect of the classification on the Company s revenues is as follows:

	For the years ended June 30, 2004	2003
	(in millions)	
Gross revenues	$ 12,304	$ 11,127
Amortization of cable distribution investments	(129)	(125)
Revenues	$ 12,175	$ 11,002

(2) Operating income before depreciation and amortization, defined as operating income (loss) plus depreciation and amortization and the amortization of cable distribution investments, eliminates the variable effect across all business segments of non-cash depreciation and amortization. Depreciation and amortization expense includes depreciation of property and equipment, as well as the amortization of finite-lived intangible assets. Amortization of cable distribution investments represents a reduction against revenues over the term of a carriage arrangement and as such it is excluded from Operating income before depreciation and amortization. Since Operating income before depreciation and amortization is a non-GAAP measure, it should be considered in addition to, not as a substitute for, operating income (loss), net income (loss), cash flow and other measures of financial performance prepared in accordance with GAAP and presented in the consolidated financial statements included elsewhere in this filing. The following is a reconciliation of Operating income before depreciation and amortization to Operating income (loss) by segment:

For the year ended June 30, 2004	Operating income before depreciation and amortization	Depreciation and amortization	Amortization of cable distribution investments	Operating income (loss)
		(in millions)		
Filmed Entertainment	$ 967	$ 54	$	$ 913
Television Stations	1,032	55		977
Television Broadcast Network	(55)	25		(80)
Cable Network Programming	658	41	129	488
Total	$ 2,602	$ 175	$ 129	$ 2,298

For the year ended June 30, 2003	Operating income before depreciation	Depreciation and amortization	Amortization of cable distribution	Operating income (loss)

	and amortization		investments	
		(in millions)		
Filmed Entertainment	$ 717	$ 55	$	$ 662
Television Stations	983	62		921
Television Broadcast Network	(81)	19		(100)
Cable Network Programming	472	47	125	300
Total	$ 2,091	$ 183	$ 125	$ 1,783

Overview For the year ended June 30, 2004, the Company s revenues increased $1,173 million from $11,002 million for the year ended June 30, 2003 to $12,175 million. This 11% increase was primarily due to revenue increases at the Filmed Entertainment and Cable Network Programming segments. Operating expenses increased approximately 9% for the year ended June 30, 2004 due to higher film amortization and increased home entertainment manufacturing and marketing costs at the Filmed Entertainment segment and increased sports programming costs for MLB at the Television Broadcast Network segment. Selling, general and administrative expenses decreased approximately $37 million or 3% from fiscal 2003 primarily due to the impact of the sale of the Los Angeles Dodgers (Dodgers) in February 2004 and the recovery of approximately $15 million of certain receivable claims against Adelphia Communications Corporation (Adelphia). As a result of the bankruptcy of Adelphia, these receivables were written off in the fourth quarter of fiscal 2002. Depreciation and amortization expense decreased 4% from fiscal 2003 primarily due to the sale of the Dodgers. For the year ended June 30, 2004, Operating income and Operating income before depreciation and amortization increased $515 million to $2,298 million and $511 million to $2,602 million, respectively, from fiscal 2003. These increases were due to improved results at the Filmed Entertainment and Cable Network Programming segments.

Equity losses of affiliates of $5 million for the year ended June 30, 2004 increased $4 million from a loss of $1 million for fiscal 2003. This increase was primarily due to losses from the first time inclusion of the Company s share of the results of The DIRECTV Group, Inc. (DTV), which was acquired on December 22, 2003, which was partially offset by improved results at Regional Programming Partners (RPP).

Net income for the year ended June 30, 2004 was $1,353 million ($1.44 per share), an improvement of $322 million from $1,031 million ($1.17 per share) for fiscal 2003. This improvement was due to the increased operating results noted above for the year ended June 30, 2004 as compared to fiscal 2003. As of June 30, 2004, the Company had 938 million weighted average shares outstanding as compared to 881 million weighted average shares outstanding as of June 30, 2003. The increase in weighted average shares outstanding was due to 50 million shares that were issued in November 2002 related to a stock offering by the Company and 75 million shares that were issued to The News Corporation Limited (News Corporation) in connection with the acquisition of DTV on December 22, 2003.

Filmed Entertainment - For the year ended June 30, 2004, revenues at the Filmed Entertainment segment increased from $4,498 million to $5,210 million, or 16%. This increase was primarily due to higher worldwide home entertainment revenues reflecting the strong worldwide performances of previously successful theatrical releases, *X-2: X-Men United, Daredevil, League of Extraordinary Gentlemen,* and *Cheaper by the Dozen,* and improved performance from various library titles on DVD as compared to fiscal 2003. Television titles, including *The Simpsons*, *24*, *Buffy the Vampire Slayer*, *Dharma & Greg,* and *Family Guy,* also contributed to the increase in home entertainment revenue. In addition, a stronger film lineup and more feature films available during fiscal 2004 contributed higher revenues from worldwide pay and free television. Fiscal 2003 home entertainment titles included the successes of *Ice Age, Minority Report,* and *Shallow Hal.*

The year ended June 30, 2004 also included several strong theatrical releases, including *Day After Tomorrow, Dodgeball, Man On Fire, Garfield,* and *Master and Commander: The Far Side of the World.* Fiscal 2003 theatrical releases included *X-2: X-Men United, Daredevil, Minority Report*, *Road To Perdition*, and *Drumline.*

For the year ended June 30, 2004, the Filmed Entertainment segment reported Operating income of $913 million as compared to $662 million in fiscal 2003. Operating income before depreciation and amortization increased to $967 million as compared to $717 million in fiscal 2003. These improvements were due to the revenue increases noted above, partially offset by increased home entertainment marketing and manufacturing costs directly associated with the increase in worldwide home entertainment revenues.

Television Stations - For the year ended June 30, 2004, the Television Stations segment s revenues increased to $2,166 million from $2,115 million in fiscal 2003. Advertising revenues in the 26 markets of the Company s stations were consistent with the fiscal 2003. The Television Stations segment s $51 million or 2% increase in revenues was primarily due to increased advertisements from the automotive and financial institutions categories, partially offset by fewer political advertisements. The decrease in political advertising in fiscal 2004 contributed to the Company s O&Os 0.5% increase in market share, as the O&O s proportional share of political advertising has historically been lower than other major networks. These share gains were also driven by strong sales for the Emmy Awards, *American Idol,* local morning newscasts and the *NFL on FOX*, which were partially offset by the non-renewal of the Boston Red Sox broadcasts in the Boston market. For the year ended June 30, 2004, the Television Stations segment generated Operating income of $977 million, an increase of $56 million, or 6% over fiscal 2003. Expenses decreased primarily due to lower program amortization and depreciation. Operating income before depreciation and amortization increased $49 million to $1,032 million from $983 million in fiscal 2003 due to revenue increases.

Television Broadcast Network - For the year ended June 30, 2004, the Television Broadcast Network segment s revenues increased $146 million to $2,390 million from $2,244 million in fiscal 2003. This 7% increase was primarily due to an increased number of MLB games televised and improved ratings and pricing for the MLB 2003 post season. Also contributing to the increase in advertising revenue were pricing increases for prime time programming, the Emmy Awards, which were not telecast on FOX in fiscal 2003, and higher pricing for NFL broadcasts. These increases were partially offset by ratings declines of 14% due to fewer episodes of *American Idol* being broadcast in fiscal 2004, the success in fiscal 2003 of *Joe Millionaire* and decreased Sunday night ratings. Operating losses for the Television Broadcast Network segment decreased $20 million to a loss of $80 million and Operating income before depreciation and amortization decreased $26 million to a loss of $55 million over fiscal 2003. Increased MLB, NFL and prime time programming costs partially offset the revenue increases.

Cable Network Programming - Total revenues for the Cable Network Programming segment increased by $264 million or approximately 12% from $2,145 million to $2,409 million for the year ended June 30, 2004. This increase reflected improved results across all of the Cable Network Programming channels. Fox News Channel s (Fox News), the FX Network s (FX) and the RSNs revenues increased 24%, 10%, and 14%, respectively, over fiscal 2003.

At Fox News, advertising revenues increased 34% from fiscal 2003 primarily due to improved pricing and volume. Affiliate revenue increased 5%, which can be attributed to an increase in subscribers from fiscal 2003. As of June 30, 2004, Fox News reached 85 million Nielsen households, a 3% increase over fiscal 2003.

At FX, advertising revenues increased 14% over fiscal 2003 due to higher ratings and improved pricing. Affiliate revenues increased 6% over fiscal 2003, reflecting an increase in subscribers and average rates per subscriber. As of June 30, 2004, FX reached approximately 84 million Nielsen households, a 5% increase over fiscal 2003.

At the RSNs, affiliate revenues increased 14% over fiscal 2003 primarily due to an increase in DBS subscribers and higher average rates per subscriber. Advertising revenues increased 11% primarily due to higher pricing per game for MLB telecasts resulting from an improved sports advertising market, more National Hockey League (NHL) and National Basketball Association (NBA) events and improved news and collegiate advertising sales.

The Cable Network Programming segment reported Operating income of $488 million, an increase of $188 million from fiscal 2003. These improvements were primarily driven by the revenue increases noted above as well as decreased losses resulting from the sale of the Dodgers in February 2004 and the recovery of approximately $15 million of certain receivable claims against Adelphia in November 2003. Partially offsetting these improvements were higher expenses for programming enhancements at Fox News, higher average sports rights fees and higher entertainment programming costs. Operating income before depreciation and amortization increased $186 million to $658 million from $472 million in fiscal 2003.

Interest expense, net - Interest expense, net increased $30 million for the year ended June 30, 2004 from $136 million to $166 million due to an increase in average amounts Due to affiliates of News Corporation resulting from the acquisition of DTV and interest expense from New Millennium II. (See Liquidity and Capital Resources).

Equity earnings (losses) of affiliates, net - Equity losses of affiliates of $5 million for the year ended June 30, 2004 increased $4 million from a loss of $1 million for fiscal 2003. This increase was primarily due to losses from the first time inclusion of the Company s share of the results of DTV, which was acquired on December 22, 2003, which was partially offset by improved results at RPP.

	Ownership Percentage	For the years ended June 30, 2004	2003	Change
			(in millions)	
RPP	40%	$ 71	$ 23	$ 48
DTV(a)	34%	(54)		(54)
National Geographic Channel - Domestic	67%	(14)	(19)	5
National Geographic Channel - International	50%	(1)	(2)	1
National Sports Partners	50%	(25)	(20)	(5)
Other	Various	18	17	1
Total equity earnings (losses) of affiliates, net		$ (5)	$ (1)	$ (4)

FOOTNOTES:

(a) The Company purchased its 34% interest in DTV in December 2003.

The Company s share of RPP s income was $71 million for the twelve months ended June 30, 2004, as compared to $23 million in fiscal 2003. This improvement is primarily due to income recognized by RPP from the termination of certain MLB rights agreements.

The Company s share of DTV s results has been adjusted to reflect the Company s initial determination of the fair value of DTV s assets and liabilities as of December 22, 2003 and, as required, excludes certain transactions that were recognized by DTV as income and expense within its earnings during the six months ended June 30, 2004. Such adjustments, including DTV s gains on the sale of securities, charges related to the sale of its PanAmSat business and write-off of deferred costs in connection with DTV s change of accounting, were recognized in fiscal 2004 through the Company s purchase price allocation. The Company s resulting share of DTV s losses was $54 million during the year ended June 30, 2004, which included $29 million from amortization of certain finite-lived intangibles.

Other, net - Other, net was a gain of $60 million for the year ended June 30, 2004. During fiscal 2004, the Company received a special dividend from Monarchy Enterprises Holdings B.V., a cost based investment. The portion of the dividend representing a distribution of the Company s share of cumulative earnings of the investee of $52 million is reflected as Other, net while the balance was a return of capital. For the year ended June 30, 2004, Other, net also included a gain of $26 million related to the settlement of the Company s insurance claim primarily for its broadcast tower at the World Trade Center in New York, New York and a gain of $9 million on the sale of the Company s interest in the SportsChannel Chicago Associates and SportsChannel Pacific Associates. These gains were partially offset by a loss of $19 million, pending the final determination of contractual adjustments, on the sale of the Dodgers and a $7 million loss on the Company s sale of its investment in the Staples Center.

Minority interest in subsidiaries - Minority interest in subsidiaries decreased $23 million from an expense of $29 million for the year ended June 30, 2003 to an expense of $6 million for the year ended June 30, 2004 due to the Company s acquisition of substantially all of the outstanding equity of New Millennium II held by third parties. (See Liquidity and Capital Resources).

Provision for income tax on a stand-alone basis - The effective tax rate for the year ended June 30, 2004 was 38.0% as compared to the fiscal 2003 effective tax rate of 36.2%. The effective tax rate for fiscal 2004 was affected by both non-deductible goodwill expense in connection with the sale of the Dodgers as well as an increase in state income tax provisions, which increased the effective tax rate above statutory rate levels.

Results of Operations Fiscal 2003 versus Fiscal 2002

The following table sets forth the Company s operating results, by segment, for fiscal 2003 as compared to fiscal 2002.

	For the years ended June 30,			
	2003	**2002**	**Change**	**% Change**
		(in millions)		
Revenues: [1]				
Filmed Entertainment	$ 4,498	$ 4,048	$ 450	11%
Television Stations	2,115	1,875	240	13%
Television Broadcast Network	2,244	2,048	196	10%
Cable Network Programming	2,145	1,754	391	22%
Total revenues	**$ 11,002**	**$ 9,725**	**$ 1,277**	**13%**
Operating income (loss):				
Filmed Entertainment	$ 662	$ 485	$ 177	36%
Television Stations	921	598	323	54%
Television Broadcast Network	(100)	(283)	183	65%
Cable Network Programming	300	6	294	**
Other operating charge		(909)	909	**
Total operating income	**1,783**	**(103)**	**1,886**	**
Interest expense, net	(136)	(241)	105	44%
Equity earnings (losses) of affiliates, net	(1)	(144)	143	99%
Minority interest in subsidiaries	(29)	(37)	8	22%
Other, net		1,540	(1,540)	**
Income before provision for income taxes and cumulative effect of accounting change	**1,617**	**1,015**	**602**	**59%**
Provision for income tax expense on a stand-alone basis	(586)	(408)	(178)	(44)%
Income before cumulative effect of accounting change	1,031	607	424	70%
Cumulative effect of accounting change, net of tax		(26)	26	**
Net income	**$ 1,031**	**$ 581**	**$ 450**	**77%**
Other data:				
Operating income before depreciation and amortization: [2]				
Filmed Entertainment	$ 717	$ 544	$ 173	32%
Television Stations	983	798	185	23%
Television Broadcast Network	(81)	(263)	182	69%
Cable Network Programming	472	243	229	94%
Other operating charge		(909)	909	**
Total operating income before depreciation and amortization	$ 2,091	$ 413	$ 1,678	**
Depreciation and amortization:				

Filmed Entertainment	$ 55	$ 59	$ (4)	(7)%
Television Stations	62	200	(138)	(69)%
Television Broadcast Network	19	20	(1)	(5)%
Cable Network Programming	47	121	(74)	(61)%
Total depreciation and amortization	$ 183	$ 400	$ (217)	(54)%

** not meaningful

FOOTNOTES:

(1) In January 2002, the Company adopted EITF 01-09, which was effective for the Company as of January 1, 2002. As required, the Company has classified the amortization of cable distribution investments against revenues for all periods presented. Operating income, Net income and Earnings per share are not affected by this classification. This classification affects the Company s and the Cable Network Programming segment s revenues. The effect of the classification on the Company s revenues is as follows:

	For the years ended June 30,	
	2003	**2002**
	(in millions)	
Gross revenues	$ 11,127	$ 9,841
Amortization of cable distribution investments	(125)	(116)
Revenues	$ 11,002	$ 9,725

(2) Operating income before depreciation and amortization, defined as operating income (loss) plus depreciation and amortization and the amortization of cable distribution investments, eliminates the variable effect across all business segments of non-cash depreciation and amortization. Depreciation and amortization expense includes depreciation of property and equipment, as well as the amortization of finite-lived intangible assets. Amortization of cable distribution investments represents a reduction against revenues over the term of a carriage arrangement and as such it is excluded from Operating income before depreciation and amortization. Since Operating income before depreciation and amortization is a non-GAAP measure, it should be considered in addition to, not as a substitute for, operating income (loss), net income (loss), cash flow and other measures of financial performance prepared in accordance with GAAP and presented in the consolidated financial statements included elsewhere in this filing. The following is a reconciliation of Operating income before depreciation and amortization to Operating income (loss) by segment:

	For the year ended June 30, 2003			
	Operating income before depreciation and amortization	**Depreciation and amortization**	**Amortization of cable distribution investments**	**Operating income (loss)**
		(in millions)		
Filmed Entertainment	$ 717	$ 55	$	$ 662
Television Stations	983	62		921
Television Broadcast Network	(81)	19		(100)
Cable Network Programming	472	47	125	300
Total	$ 2,091	$ 183	$ 125	$ 1,783

	For the year ended June 30, 2002			
	Operating income before depreciation and	**Depreciation and amortization**	**Amortization of cable distribution investments**	**Operating income (loss)**

	amortization			
		(in millions)		
Filmed Entertainment	$ 544	$ 59	$	$ 485
Television Stations	798	200		598
Television Broadcast Network	(263)	20		(283)
Cable Network Programming	243	121	116	6
Other operating charge	(909)			(909)
Total	$ 413	$ 400	$ 116	$ (103)

Overview - For the year ended June 30, 2003, the Company s revenues increased $1,277 million from $9,725 million for the year ended June 30, 2002 to $11,002 million. This 13% increase was primarily due to revenue increases at the Filmed Entertainment and Cable Network Programming segments. Operating expenses increased approximately 6% for the year ended June 30, 2003 due to increased theatrical and home entertainment marketing costs and home entertainment production costs at the Filmed Entertainment segment. Selling, general and administrative expenses increased approximately 4% as compared to the year ended June 30, 2002 due to the consolidation of the Acquired Stations (as defined below) and the WPWR television station. Depreciation and amortization expenses decreased approximately 54% due to the Company s adoption of SFAS No. 142 resulting in the elimination of the amortization of goodwill and indefinite-lived intangible assets, which impacted primarily the Television Stations and Cable Network Programming segments. For the year ended June 30, 2003, Operating income and Operating income before depreciation and amortization increased $1,886 million to $1,783 million and $1,678 million to $2,091 million, respectively, from the fiscal 2002. These increases were in part due to the Company s $909 million Other operating charge during the year ended June 30, 2002 for the write down of the Company s national sports contracts without a comparative charge in fiscal 2003. In addition, increased results at the Television Stations and Cable Network Programming segments contributed to the increases in Operating income and Operating income before depreciation and amortization.

Effective July 1, 2002, the Company adopted Statement of Financial Accounting Standard (SFAS) No. 142, Goodwill and Other Intangible Assets. SFAS No. 142 eliminates the requirement to amortize goodwill, indefinite-lived intangible assets and the excess cost over the Company s share of equity investees assets and supersedes APB Opinion No. 17, Intangible Assets, and replaces it with requirements to assess goodwill and indefinite-lived intangible assets annually for impairment. Intangible assets that are deemed to have a finite life will continue to be amortized over their useful lives. SFAS No. 142 required the Company to perform an initial impairment assessment of its goodwill and indefinite-lived intangible assets as of the date of adoption. This impairment assessment compared the fair value of these intangible assets to their carrying value. As a result of the tests performed, the Company has determined that none of its goodwill and indefinite-lived intangible assets are impaired. Had the Company adopted SFAS No. 142 on July 1, 2001, Depreciation and amortization expense, Operating income (loss), Equity earnings (losses) of affiliates, net, Income before cumulative effect of accounting change and Earnings (loss) per share before cumulative effect of accounting change would have been $187 million, $110 million, $(115) million, $790 million, and $0.94 per share, respectively.

Equity losses of affiliates of $1 million for the year ended June 30, 2003 improved $143 million from losses of $144 million from fiscal 2002. This improvement was primarily related to improved results at RPP and the National Geographic Channel Domestic as well as the absence of losses from Fox Family Worldwide (FFW) since its sale in October 2001. Also contributing to this improvement was decreased amortization expense due to the adoption of SFAS No. 142. Had the Company adopted SFAS No. 142 on July 1, 2001, Equity losses of affiliates would have improved by $29 million for the year ended June 30, 2002.

Net income for the year ended June 30, 2003 was $1,031 million ($1.17 per share), an improvement of $450 million from $581 million ($0.69 per share) for fiscal 2002. This improvement is due to the increased operating results noted above for the year ended June 30, 2003 as compared to fiscal 2002 and the Company s $909 million Other operating charge during the year ended June 30, 2002 for the write down of the Company s national sports contracts without a comparative charge in fiscal 2003. These improvements were partially offset by the non-recurring gains recognized on the sales of FFW and Outdoor Life Network in fiscal 2002 without comparative gains in fiscal 2003.

Filmed Entertainment - Revenue at the Filmed Entertainment segment increased from $4,048 million for the year ended June 30, 2002 to $4,498 million, or 11%. This increase was primarily due to increased worldwide home entertainment revenues, most notably from the strong worldwide performance of *Ice Age* and *Shallow Hal*, and increased worldwide theatrical revenues due to the strong releases of *X-2: X-Men United* and *Daredevil*. During fiscal 2003, the Company had several additional successful theatrical releases, including the domestic theatrical launches and subsequent strong home entertainment performances of *Like Mike* and *Drumline* and the international theatrical launches and subsequent strong home entertainment performances of *Minority Report* and *Road to Perdition*. Fiscal 2002 results included the strong worldwide theatrical, worldwide home entertainment and domestic pay-television performances of *Planet of the Apes* and *Dr. Dolittle 2*, worldwide theatrical performance of *Ice Age* and the international theatrical and worldwide home entertainment performance of *Moulin Rouge*. For the year ended June 30, 2003, the Filmed Entertainment segment reported Operating income of $662 million as compared to $485 million for fiscal 2002. Operating income before depreciation and amortization increased to $717 million as compared to $544 million for fiscal 2002. These increases were primarily due to the revenue increases noted above, most notably from *Ice Age*, and improved margins on DVD product due to increased volume, which were partially offset by increased home entertainment marketing costs. At Twentieth Century Fox Television (TCFTV), for the year ended June 30, 2003, contributions increased due to increased worldwide home entertainment revenues for *24, Angel, Buffy the Vampire Slayer* and *The Simpsons*, higher network revenues for *The Practice* and the domestic syndication of *The X-Files* and *King of* *the Hill*. Improved profit rates on series due to DVD products and lower series production costs due to fewer episodes being produced also contributed to TCFTV s increased results.

Television Stations - On July 31, 2001, the Company acquired the television broadcasting business of Chris-Craft Industries, Inc., (Chris-Craft) consisting of ten television stations and subsequently exchanged four former Chris-Craft stations with Viacom, Inc., Clear Channel Communications, Inc. and Meredith Corporation for five other television stations (after giving effect to these transactions the acquired television stations are referred to as the Acquired Stations). In addition, in August 2002, the Company acquired WPWR in the Chicago designated market area (DMA) from Newsweb Corporation. These acquisitions increased the number of the Company s O&Os to 35 full power stations, including nine duopolies.

For the year ended June 30, 2003, the Television Stations segment s revenues increased to $2,115 million from $1,875 million in fiscal 2002. This $240 million, or 13% increase primarily resulted from higher advertising revenues, the impact of the Acquired Stations and the acquisition of WPWR. Advertising revenues in the 26 markets of the Company s O&O s continued to improve versus the fiscal 2002, up approximately 9%. This increase is primarily due to the market rebounding and heavy political spending. Automotive, movies, telecommunications and political spending are all stronger than they were in fiscal 2002. The revenue increases noted above contributed to the Company s O&Os market share increase of 1.4 percentage points from fiscal 2002. This market share gain was partially offset by heavy political spending on competitor stations in fiscal 2003, the loss of the New York Yankee broadcasts in the New York market and the loss of the Boston Red Sox broadcasts in the Boston market. For the year ended June 30, 2003, the Television Stations segment generated Operating income of $921 million, which was $323 million, or 54% higher than fiscal 2002. This increase was due to the revenue increases noted above and lower local program production costs as a result of the non-renewal of New York Yankee and Boston Red Sox baseball game broadcasts. This increase was partially offset by higher fringe benefits expenses, a full year of the Acquired Stations operating expenses in fiscal 2003, higher marketing costs to promote the FOX prime time schedule and operating expenses of WPWR. Operating income before depreciation and amortization increased $185 million to $983 million from $798 million.

Television Broadcast Network - For the year ended June 30, 2003, the Television Broadcast Network segment s revenues increased $196 million to $2,244 million from $2,048 million in fiscal 2002. This 10% increase is due to higher ratings and pricing increases for prime time programming, most notably from *American Idol* and *Joe Millionaire*, higher ratings for the NFL, and the DAYTONA 500, which was not telecast on FOX in fiscal 2002. These increases were partially offset by the non-recurring telecast of the Super Bowl on FOX in fiscal 2002. Operating losses for the Television Broadcast Network segment improved $183 million to a loss of $100 million and Operating income before depreciation and amortization improved $182 million to a loss of $81 million compared to fiscal 2002. These operating improvements were driven by the revenue increases noted above and lower programming rights costs due to the non-recurring telecast of the Super Bowl on FOX in fiscal 2002. These improvements are partially offset by higher prime time license fees for returning series, increased costs for series cancellations, higher programming costs related to the Company s national sports contracts, and increases in advertising expenses for prime time series.

Cable Network Programming - Total revenues for the Cable Network Programming segment increased by $391 million or approximately 22% from $1,754 million to $2,145 million for the year ended June 30, 2003. This increase reflects improved results across all of the Cable Network Programming channels. Also contributing to this increase was the full year consolidation of the Sunshine Network (Sunshine) and Fox Sports International. Fox News , FX s and the RSNs revenues increased 49%, 15%, and 16%, respectively, from fiscal 2002.

At Fox News, advertising revenues increased 85% from fiscal 2002 due to improved ratings and increased pricing, partially offset by higher pre-emptions. Affiliate revenues increased by 12%, attributed to an increase in subscribers versus fiscal 2002, partially offset by a 4% increase in amortization of cable distribution investments. As of June 30, 2003, Fox News reached approximately 83 million Nielsen households, a 3% increase over fiscal 2002.

At FX, advertising revenues increased 25% over fiscal 2002 as a result of increased subscribers and higher pricing. FX affiliate revenues increased 8% from fiscal 2002, reflecting an increase in subscribers, partially offset by a 15% increase in amortization of cable distribution investments. As of June 30, 2003, FX reached over 80 million Nielsen households, a 3% increase over fiscal 2002.

At the RSNs, affiliate revenues increased 20% over fiscal 2002 primarily from an increase in DBS subscribers and the consolidation of Sunshine. Advertising revenues increased 12% primarily due to the telecast of more MLB and collegiate games and the higher pricing per game for MLB, NBA and NHL telecasts resulting from an improved sports advertising market, partially offset by a reduced number of NBA games.

The Cable Network Programming segment reported Operating income of $300 million, an increase of $294 million from fiscal 2002. These improvements were primarily driven by the revenue increases noted above, lower amortization expense due to the Company s adoption of SFAS No. 142 on July 1, 2002, the fiscal 2002 bad debt provision related to Adelphia receivables and the consolidation of Sunshine for the full year. Partially offsetting these improvements were higher expenses for programming enhancements and consumer marketing at Fox News, higher programming costs at FX and SPEED Channel, higher average rights fees for professional events at the RSNs and the consolidation of expenses from Sunshine and Fox Sports International for the full year. Operating income before depreciation and amortization increased $229 million to $472 million from $243 million from fiscal 2002.

Interest expense, net - Interest expense, net decreased $105 million for the year ended June 30, 2003 from $241 million to $136 million due to the decreased interest expense resulting from the redemption of the Notes (as defined below in Liquidity and Capital Resources) and from reduced amounts Due to affiliates of News Corporation resulting from repayments.

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Equity earnings (losses) of affiliates, net - Equity losses of affiliates of $1 million for the year ended June 30, 2003 improved $143 million from losses of $144 million from fiscal 2002. This improvement was primarily related to improved earnings at RPP and the National Geographic Channel Domestic as well as the absence of losses from FFW since its sale in October 2001. Also contributing to this improvement was decreased amortization expense due to the adoption of SFAS No. 142. Had the Company adopted SFAS No. 142 on July 1, 2001, Equity losses of affiliates would have improved by $29 million for the year ended June 30, 2002.

	Ownership Percentage	For the years ended June 30, 2003	2002	Change
		(in millions)		
Fox Family Worldwide (a)	50%	$	$ (51)	$ 51
Fox Sports International (b)	50%		(9)	9
National Geographic Channel - Domestic	67%	(19)	(42)	23
National Geographic Channel - International	50%	(2)	(3)	1
National Sports Partners	50%	(20)	(25)	5
Regional Programming Partners	40%	23	(9)	32
Ventures Arena	40%	7	4	3
Other	Various	10	(9)	19
Total equity earnings (losses) of affiliates, net		$ (1)	$ (144)	$ 143

FOOTNOTES:

(a) The Company sold its interests in FFW in October 2001.
(b) Subsequent to the acquisition of the remaining 50% interest in December 2001, the results of Fox Sports International have been consolidated in the Cable Network Programming segment.

The Company s share of RPP s income was $23 million for the year ended June 30, 2003, as compared to losses of $9 million in fiscal 2002. This improvement is primarily due to the prior year charges from Madison Square Garden associated with the termination of two professional player contracts, significant cost savings at the Metro Channels, and lower amortization of intangible assets resulting from RPP s implementation of SFAS No. 142 effective January 1, 2002. Partially offsetting the improvement is a player compensation charge and lower earnings from the professional teams in fiscal 2003.

The Company s share of National Geographic Channel-Domestic s loss was $19 million for the year ended June 30, 2003, as compared to a loss of $42 million in fiscal 2002. Affiliate and advertising revenues increased due to a significant growth in distribution. Partially offsetting the increase in revenues was higher programming amortization supporting an increased investment in quality programming. As of June 30, 2003, National Geographic Channel Domestic reached over 43 million Nielsen households.

Minority interest in subsidiaries - Minority interest in subsidiaries decreased $8 million to $29 million for the year ended June 30, 2003 due to a decrease in the average amount of Preferred Interests outstanding and the corresponding decrease in Preferred Payments.

Other, net - Other, net was $1,540 million for the year ended June 30, 2002, including the gains recognized on the sales of FFW in the amount of $1,439 million and Outdoor Life Network LLC in the amount of $147 million.

Income tax on a stand-alone basis - The effective tax rate for the year ended June 30, 2003 was 36.2% as compared to the fiscal 2002 effective tax rate of 40.2%. The effective tax rate for fiscal 2002 was affected by the amortization of non-deductible goodwill, which increased the effective tax rate above statutory rate levels.

LIQUIDITY AND CAPITAL RESOURCES

Current Financial Condition

At June 30, 2004, the Company had $4,236 million and $659 million of amounts due to affiliates of News Corporation and borrowings from New Millennium II, respectively, $122 million of cash and cash equivalents and $18 billion of shareholders equity. At June 30, 2003, the Company had $704 million and $762 million of amounts due to affiliates of News Corporation and borrowings from New Millennium II (presented in Minority interest in subsidiaries in fiscal 2003 See New Millennium II), respectively, $72 million of cash and cash equivalents and $14 billion of shareholders equity.

The Company s principal sources of cash are internally generated funds, borrowings from News Corporation and its subsidiaries and various film financing alternatives. As of June 30, 2004, News Corporation had consolidated cash and cash equivalents of $3.9 billion, excluding the cash of the Company, and a revolving credit facility of $1.75 billion. We believe that cash from operations, proceeds from the sale of certain assets and the funds available from News Corporation will be adequate for the Company to conduct its operations. The Company s internally generated funds are highly dependent upon the state of the advertising market and public acceptance of film and television products. Any significant decline in the advertising market or the performance of its films could adversely impact its cash flows from operations.

The principal uses of cash that affect the Company s liquidity position include the following: investments in the production and distribution of new feature films and television programs, the acquisition of and payments under programming rights for entertainment programming and sporting events, operational expenditures, interest and income tax payments.

Sources and Uses of Cash

Net cash provided by operating activities for the years ended June 30, 2004 and 2003 was $1.2 billion and $1.3 billion, respectively. This decrease is primarily due to increased filmed entertainment and television programming costs due to higher contractual sports rights payments and increased production spending related to the new summer television primetime line-up. During the year ended June 30, 2004, the Company made higher scheduled NFL rights payments, increased production spending related to the new summer television primetime line-up, increased pension contributions and made higher income tax payments (see below) as compared to fiscal 2003. These uses of cash were partially offset by higher net income (adjusted for non-cash items) during fiscal 2004.

Net cash used in investing activities for the years ended June 30, 2004 and 2003 was $19 million and $752 million, respectively. The higher use of cash in fiscal 2003 is primarily due to fiscal 2003 s use of cash in the acquisition of WPWR for the purchase price of $425 million with no comparable transaction in fiscal 2004. In addition, in fiscal 2004, the Company sold its investment in the Staples Center for $128 million and sold the Dodgers. Cash received on the sale of the Dodgers was $155 million, which was net of $70 million in contractual closing adjustments and payments to the minority shareholder. The Company has agreed to remit $50 million during the first two years following the closing of the sale of the Dodgers to reimburse the buyer for certain pre-existing commitments of which $23 million was paid in fiscal 2004, $22 million will be paid in fiscal 2005 and $5 million will be paid in fiscal 2006.

Net cash used in financing activities during the years ended June 30, 2004 and 2003 was $1.1 billion and $539 million, respectively. The increase in cash used in financing activities is primarily attributable to a net increase in repayments to affiliates of News Corporation. In fiscal 2003, the Company redeemed all of the outstanding 9 $^{3}/4$% Senior Discount Notes due 2007 and 8 $^{7}/8$% Senior Notes due 2007 in the aggregate amount of $947 million. In addition, in December 2002, the Company sold 50 million shares of Class A Common Stock for $1.2 billion in proceeds, which the Company then used to reduce obligations due to affiliates of News Corporation. In a non-cash transaction, the Company issued two promissory notes to News Corporation in connection with the DTV transaction.

Under a tax sharing agreement between the Company and News Corporation (Tax Sharing Agreement), the Company is included in the consolidated tax return of News Corporation. Amounts paid in accordance with the Tax Sharing Agreement, which were included in Due to affiliates of News Corporation, were $635 million, $282 million and $370 million during the years ended June 30, 2004, 2003 and 2002, respectively. The difference between June 30, 2004 and 2003 primarily relates to the capital gain on the sale of the Company s interest in the Dodgers and the SportsChannels, an increase in taxable income and an increase in state tax payments.

During fiscal 2004, the Company made cash contributions to its pension plans in the amount of $128 million as compared to cash contributions of $51 million during fiscal 2003. As a result of these cash contributions and improved asset returns, the Company reduced its minimum pension liability by approximately $31 million at June 30, 2004 as compared to increasing its minimum pension liability by approximately $109 million at June 30, 2003. Almost all of the fiscal 2004 contributions were voluntary to enhance the funded status of the Company s plans. The Company does not expect mandatory pension funding requirements to be significant in fiscal 2005. However, the Company does expect to continue making discretionary contributions to the plans during fiscal 2005.

Issuances of Stock

Transaction	Amount of issuance	Number of Shares	Footnote reference
		(in millions)	
Fiscal year 2004			
DTV transaction	$ 2,302	75	5
Fiscal year 2003			
Common stock offering	$ 1,212	50	3
Fiscal year 2002			
Chris-Craft transaction	$ 3,432	122	4
Fox Sports International transaction	115	4	6

Debt Instruments, Guarantees and Related covenants

Intercompany Financing - The Company is funded primarily by cash generated from operations and by loans from other affiliates of News Corporation. Interest on outstanding intercompany balances has been charged at commercial market rates not to exceed News Corporation s average cost of borrowing as set forth in the Master Intercompany Agreement between the Company and News Corporation. For the year ended June 30, 2004, the weighted average intercompany interest rate was 8%. The Company anticipates that operating cash flows and borrowings from News Corporation will be sufficient to meet its working capital requirements. In addition to the agreed upon intercompany interest rate and in connection with the DTV acquisition, the Company issued to News Corporation two promissory notes totaling $4.5 billion. One promissory note is in the amount of $2 billion and bears interest at a rate of LIBOR plus 1% per annum at June 30, 2004. The other promissory note is in the amount of $2.5 billion and bears interest at 8% per annum.

Public Debt Redemptions - In August 2002, the Company and its subsidiary, Fox Sports Networks, LLC redeemed all of the outstanding 9 ^{3}/4 % Senior Discount Notes due 2007 and 8 ^{7}/8% Senior Notes due 2007 (collectively, the Notes) in the aggregate amount of $947 million.

Single-Film Production Financing - In fiscal 2003, the Company had a single-film production financing arrangement for approximately $95 million, which was secured by the film assets and bore interest at approximately 1.9%. In April 2003, the Company repaid it in full.

New Millennium II Considering the competitive environment and costs associated with film production, film studios, including the Company, constantly evaluate the risks and rewards of film production. Various strategies are used to balance risk with capital needs, including, among other methods, co-production, contingent profit participations, acquisition of distribution rights only and insurance. Historically, the Company has funded its film production by borrowing under a commercial paper facility (the Facility) but is presently funding film production through operating cash flows or through borrowings from News Corporation.

During fiscal 2002 and 2003, the Company was party to a series of film rights agreements whereby a controlled consolidated subsidiary of the Company funded the production or acquisition costs of all eligible films, as defined, to be produced or acquired by Twentieth Century Fox Film Corporation, a subsidiary of the Company, (these film rights agreements, as amended, are collectively referred to as the New Millennium II Agreement). Under the New Millennium II Agreement, a preferred limited liability membership interest (Preferred Interest) was issued to Tintagel Investors L.L.C. (Tintagel) to fund the film financing, which was presented on the consolidated balance sheets as Minority interest in subsidiaries, and the corresponding return on the Preferred Interests (the Preferred Payments) were presented as an expense in Minority interest in subsidiaries on the consolidated statements of operations.

During fiscal 2004, the Company purchased substantially all of the outstanding equity of Tintagel, the entity that held the Preferred Interest (discussed above) for $25.5 million, plus accrued and unpaid Preferred Payments of $106,000. As a result of the acquisition of this equity interest, the Company consolidated the assets and liabilities of Tintagel for accounting purposes and all Preferred Interests and Preferred Payments have been eliminated. Tintagel s outstanding indebtedness of $659 million at June 30, 2004 was included in Borrowings on the consolidated balance sheet and the corresponding interest expense was included in Interest expense, net in the consolidated statement of operations. As of June 30, 2003, there was $762 million of Preferred Interests outstanding, which was presented on the consolidated balance sheets as Minority interest in subsidiaries. Tintagel continues to be a separate legal entity from the Company with separate assets and liabilities. For the three years ended June 30, 2004, the Company borrowed $479 million, $520 million and $657 million and repaid $556 million, $608 million and $649 million, respectively, under the Facility.

In May 2004, the Company ended the transfer term under the New Millennium II Agreement and will no longer draw any borrowings under the Facility. In accordance with the terms of the termination, the Company will repay $636 million of the Facility in fiscal 2005 and $23 million in fiscal 2006. In July 2004, the Company repaid $375 million of the amount due in fiscal 2005, with $261 million remaining to be repaid in fiscal 2005.

Ratings of News Corporation Public Debt

The table below summarizes News Corporation s credit ratings as of June 30, 2004.

Rating Agency	Senior Debt	Outlook
Moody s	Baa 3	Positive
S&P	BBB-	Positive

Commitments and Guarantees

The Company has commitments under certain firm contractual arrangements (firm commitments) to make future payments for goods and services. These firm commitments secure the future rights to various assets and services to be used in the normal course of operations. The following table summarizes the Company s material firm commitments and borrowings as of June 30, 2004 and the timing and effect that such obligations are expected to have on the Company s liquidity and cash flow in future periods. The Company expects to fund these commitments primarily with operating cash flow generated in the normal course of business.

	As of June 30, 2004				
	Payments Due by Period				
	Total	1 year	2-3 years	4-5 years	After 5 years
	(in millions)				
Contractual Obligations and Commitments					
Due to affiliates of News Corporation [a]	$ 4,236	$	$	$ 4,236	$
New Millennium II Preferred Interest [b]	659	636	23		
Major League Baseball [c]	1,308	412	896		
National Football League [d]	1,580	765	815		
National Association of Stock Car Auto Racing [e]	1,226	301	536	285	104
Capital expenditures	80	60	20		
Operating leases [f]	975	119	198	148	510
Other programming commitments and obligations [g]	5,643	1,495	1,528	1,056	1,564
Total Contractual Obligations and Commitments	$ 15,707	$ 3,788	$ 4,016	$ 5,725	$ 2,178

The Company also has certain contractual arrangements that would require the Company to make payments or provide funding if certain circumstances occur (contingent guarantees). The Company does not expect that these contingent guarantees will result in any amounts being paid by the Company in the foreseeable future. The timing of the amounts presented in the table reflect when the maximum contingent guarantees will expire and does not indicate that the Company expects to incur an obligation to make payments during that timeframe.

	As of June 30, 2004				
		Amount of Guarantees Expiration Per Period			
	Total Amounts Committed	1 year	2-3 years	4-5 years	After 5 years
	(in millions)				
Contingent Guarantees					
Guarantees [h]	$ 9,748	$	$	$	$ 9,748
Guarantees of equity affiliates [i]	11	11			

FOOTNOTES:

(a) The Company is funded primarily by cash from operations and by loans from other subsidiaries and affiliates of News Corporation. The Company had approximately $4.2 billion of indebtedness to affiliates of News Corporation as of June 30, 2004, which extends through June 30, 2008.

(b) See discussion of New Millennium II above.

(c) The Company s contract with MLB grants the Company rights to telecast certain regular season and all post-season MLB games. The contract began with the 2001 MLB season and ends with the 2006 MLB season. The remaining future scheduled payments for telecast rights to such MLB games aggregated approximately $1.3 billion as of June 30, 2004. For the duration of the term of its contract with MLB, the Company has sublicensed telecast rights to certain MLB post-season games to The Walt Disney Company, and is entitled to be paid a sublicense fee aggregating $385 million over the remaining term. The amounts reflected on the above schedule have not been reduced by the sublicense.

(d) Under the Company s contract with the NFL through fiscal 2006, remaining future minimum payments for program rights to broadcast certain football games aggregated approximately $1.6 billion as of June 30, 2004, and are payable over the remaining term of the contract.
(e) The Company s contracts with NASCAR, which contain certain termination clauses, give the Company rights to broadcast certain NASCAR races through fiscal 2009 and exclusive NASCAR content rights as well as the NASCAR brand to be exploited with a new NASCAR cable channel or the existing SPEED Channel through fiscal 2013. The remaining future minimum payments aggregated approximately $1.2 billion as of June 30, 2004 and are payable over the remaining terms assuming no early terminations.
(f) The Company leases transponders, office facilities, equipment, and microwave transmitters used to carry its broadcast signals. These leases, which are classified as operating leases, expire at various dates through 2036.
(g) The Company s minimum commitments and guarantees under certain other programming, local sports broadcast rights and other agreements aggregated approximately $5.6 billion as of June 30, 2004.
(h) See discussion of Guarantees below.
(i) The Company guaranteed sports rights agreements for SportsChannel Chicago Associates (SportsChannel Chicago). SportsChannel Chicago has been notified by the team owners of the termination, effective September 30, 2004, of these sports rights agreements and as a result, as of June 30, 2004, the remaining guarantees have been reduced to approximately $11 million and will expire on September 30, 2004.

Except as otherwise discussed above, the Company does not guarantee the debt of any of its affiliates accounted for using the equity method of accounting.

Guarantees

The Company, News Corporation and certain of News Corporation s other subsidiaries are guarantors of various debt obligations of News Corporation and certain of its subsidiaries. The principal amount of indebtedness outstanding under such debt instruments as of June 30, 2004 and 2003 was approximately $10 billion. The debt instruments limit the ability of guarantors, including the Company, to subject their properties to liens, and certain of the debt instruments impose limitations on the ability of News Corporation and certain of its subsidiaries, including the Company, to incur indebtedness in certain circumstances. Such debt instruments mature at various times between 2005 and 2096, with a weighted average maturity of 19 years.

In the case of any event of default under such debt obligations, the Company will be directly liable to the creditors or debtholders. News Corporation has agreed to indemnify the Company from and against any obligations it may incur by reason of its guarantees of such debt obligations. As of June 30, 2004, News Corporation was in compliance with all of its debt covenants and had satisfied all financial ratios and tests and expects to remain in compliance and satisfy all such ratios and tests.

CRITICAL ACCOUNTING POLICIES

The SEC considers an accounting policy to be critical if it is important to the Company s financial condition and results, and if it requires significant judgment and estimates on the part of management in its application. The development and selection of these critical accounting policies have been determined by management of the Company and the related disclosures have been reviewed with the Audit and Finance Committee of the Board of Directors. For a summary of all of the Company s significant accounting policies, see Note 2 to the accompanying consolidated financial statements.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. The Company uses significant estimates in determining the amortization of filmed entertainment costs and programming contracts. Because the use of estimates is inherent in the financial reporting process, actual results could differ from those estimates. These differences could be material.

Revenue Recognition

Filmed Entertainment - Revenues from distribution of feature films are recognized in accordance with paragraph .07 of Statement of Position No. 00-2, Accounting by Producers or Distributors of Films (SOP 00-2). Specifically, revenues from the theatrical distribution of motion pictures are recognized as they are exhibited and revenues from home video and DVD sales, net of a reserve for estimated returns, together with related costs, are recognized on the date that video and DVD units are made widely available for sale by retailers and all Company-imposed restrictions on the sale of video and DVD units have expired. Revenues from television distribution are recognized when the motion picture or television program is made available to the licensee for broadcast.

Management bases its estimates of ultimate revenue for each film on the historical performance of similar films, incorporating factors such as the past box office record of the lead actors and actresses, the genre of the film, prerelease market research (including test market screenings) and the expected number of theaters at which the film will be released. Management updates such estimates based on information available on the progress of the film production and, upon release, the actual results of each film.

License agreements for the telecast of theatrical and television product in the broadcast network, syndicated television and cable television markets are routinely entered into in advance of their available date for telecast. Cash received and amounts billed in connection with such contractual rights for which revenue is not yet recognizable is classified as deferred revenue. Because deferred revenue generally relates to contracts for the licensing of theatrical and television product which have already been produced, the recognition of revenue for such completed product is principally only dependent upon the commencement of the availability period for telecast under the terms of the related licensing agreement.

Television Stations, Television Broadcast Network and Cable Network Programming Advertising revenue is recognized as the commercials are aired, net of agency commissions. Subscriber fees received from cable systems and DBS operators are recognized as revenue in the period that services are provided, net of amortization of cable distribution investments.

Filmed entertainment and television programming costs

Accounting for the production and distribution of motion pictures and television programming is in accordance with SOP 00-2, which requires management s judgment as it relates to total revenues to be received and costs to be incurred throughout the life of each program or its license period. These judgments are used to determine the amortization of capitalized filmed entertainment and television programming costs associated with revenues earned and any fair value adjustments.

Filmed Entertainment and television programming costs are amortized in the statement of operations in the direct proportion that revenues currently recognized bears to management s estimate of total future revenues to be received throughout the life of each motion picture or television program. Estimates of revenues are reviewed and reassessed periodically on a title-by-title basis.

In the Television Broadcast Network segment, we amortize the costs of multi-year sports contracts based on the ratio of each period s operating profit earned on the contract to the estimated total operating profit expected to be earned over the remaining life of the contract from all segments. Estimates of total operating profit to be earned over the life of the contract are reviewed periodically and amortization is adjusted as necessary. Management s estimates of total operating profit over the life of the contract are primarily dependent upon their projections of the revenue to be derived from selling advertising spots in the games and other directly attributed revenue sources as well as direct selling costs and the direct costs associated with broadcasting the games or events. At the inception of these contracts and periodically thereafter, the Company evaluates the recoverability of the costs associated therewith against the revenues directly associated with the program material and related expenses.

Operating Expenses

In accordance with GAAP, the Company amortizes Filmed Entertainment and television programming costs using the individual-film-forecast method. Under the individual-film-forecast method, such programming costs are amortized for each film or television program in the ratio that current period actual revenue for such title bears to management s estimated remaining unrecognized ultimate revenue as of the beginning of the current fiscal year to be recognized over approximately a six year period or operating profits to be realized from all media and markets for such title. The costs of multi-year national sports contracts for the Television Broadcast Network segment are charged to expense based on the ratio of each period s operating profit to estimated total remaining operating profit of the contract. The costs of sports contracts for the Cable Network Programming segment and program rights for entertainment programs for the Television Stations and Television Broadcast Network segments are amortized primarily on a straight-line basis, generally based on the usage of the program or term of the license. Original cable programming is amortized on an accelerated basis. Management regularly reviews, and revises when necessary, its total revenue estimates on a title-by-title and contract basis, which may result in a change in the rate of amortization and/or a writedown of the film or television asset to fair value.

Sales Returns

At the time of sale of home entertainment product, the Company records as a reduction of revenue the estimated impact of returns, rebates and other incentives. In determining the estimate of home entertainment product sales that will be returned, management analyzes historical returns, current economic trends and changes in customer demand and acceptance of the Company s product. Based on this information, management reserves a percentage of each dollar of product sales that provide the customer with the right of return.

Accounts Receivable

The Company continuously monitors its customers payment profile and maintains a provision for estimated losses based on its historical experience and any specific customer issues that have been identified.

Property, Plant and Equipment

Land, buildings and equipment are recorded at cost and are depreciated on a straight-line method over the estimated useful lives of such assets. Changes in circumstances such as technological advances, changes to the Company s business model or changes in the Company s capital strategy could result in the actual useful lives differing from the Company s estimates. In those cases where the Company determines that the useful life of buildings and equipment should be shortened, the Company would depreciate the asset over its revised remaining useful life thereby increasing depreciation expense.

Intangible Assets

The Company has a significant amount of intangible assets, including goodwill, FCC licenses, and other copyright products and trademarks. Intangible assets acquired in business combinations are recorded at their estimated fair market value at the date of acquisition. Goodwill is recorded as the difference between the cost of acquiring an entity as compared to estimated fair values assigned to their tangible and identifiable intangible net assets. The judgments made in determining the estimated fair value assigned to each class of intangible assets acquired as well as their useful lives can significantly impact net income.

The Company accounts for its business acquisitions under the purchase method of accounting. The total cost of acquisitions is allocated to the underlying net assets, based on their respective estimated fair values. The excess of the purchase price over the estimated fair values of the tangible net assets acquired is recorded as intangibles. Determining the fair value of assets acquired and liabilities assumed requires management s judgment and often involves the use of significant estimates and assumptions, including assumptions with respect to future cash inflows and outflows, discount rates, asset lives, and market multiples, among other items.

On July 1, 2002, the Company adopted SFAS No. 142, Goodwill and Other Intangible Assets. In accordance with SFAS No. 142, goodwill and indefinite-lived intangible assets are no longer amortized, resulting in a reduction of Depreciation and amortization expense beginning in fiscal 2003.

Carrying values of goodwill and intangible assets with indefinite lives are reviewed periodically for possible impairment in accordance with SFAS No. 142. The Company s impairment review is based on, among other methods, a discounted cash flow approach that requires significant management judgments. Impairment occurs when the carrying value of the reporting unit exceeds the discounted present value of the cash flows for that reporting unit. An impairment charge is recorded for the difference between the carrying value and the net present value of estimated future cash flows, which represents the estimated fair value of the asset. The Company uses its judgment in assessing whether assets may have become impaired between annual valuations. Indicators such as unexpected adverse economic factors, unanticipated technological change or competitive activities, loss of key personnel, and acts by governments and courts, may signal that an asset has become impaired.

Income Taxes

The Company has not recorded a valuation allowance to reduce the amount of its deferred tax assets, as the Company believes that it is more likely than not that such assets will be realized. In making this estimate, management has considered in accordance with the Tax Sharing Agreement (See Liquidity and Capital Resources Sources and Uses of Cash) future taxable income and ongoing tax planning strategies in assessing the need for the valuation allowance. In the event that management determines that it would not be able to realize all or part of the net deferred tax asset in the future, a valuation allowance would be recorded against the deferred tax asset with a corresponding charge to Provision for income tax expense recognized in the period such determination was made.

Employee Costs

Pension and other postretirement benefits costs and obligations are dependent on assumptions used in calculating such amounts. These assumptions include discount rates, expected return on plan assets, mortality rates and other factors. In accordance with GAAP, differences between actual results and assumptions are accumulated and amortized as part of net periodic pension costs over future periods and, therefore, generally affect recognized expense and the recorded obligation in future periods. While management believes that the assumptions used are appropriate, differences in actual experience or changes in assumptions may affect the Company s pension and other postretirement obligations and future expense.

The Company s expected long-term rate of return on plan assets used to compute the fiscal 2004 pension expense was 8%. In developing the expected long-term rate of return, the Company considered the pension portfolio s past average rate of earnings, discussions with portfolio managers and comparisons with similar companies. The expected long-term rate of return is based on an asset allocation assumption of 60% equities, 35% fixed-income securities and 5% of other investments. A decrease in the expected long-term rate of return of 25 basis points, from 8.00% to 7.75%, while holding all other assumptions constant, would have resulted in an increase in the Company s pension expense of approximately $1 million in fiscal 2004.

The Company used a discount rate of 6.00% to compute fiscal 2004 pension expense. The discount rate is evaluated annually and compared to the prevailing market rate at June 30, 2004 of a portfolio of long-term high quality corporate bonds. A decrease in the discount rate of 25 basis points, from 6.00% to 5.75%, while holding all other assumptions constant, would have resulted in an increase in the Company s pension expense of approximately $5 million in fiscal 2004.

Recent Accounting Pronouncements

In December, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) was signed into law. The Act introduced a prescription drug benefit under Medicare (Medicare Part D) and a federal subsidy to sponsors of retirement health care plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. In accordance with Financial Accounting Standards Board (FASB) Staff Position 106-1, the Company elected to defer recognizing the effects of the Act on the accounting for its retirement health care plans in fiscal 2004. In May 2004, the FASB issued FASB Staff Position 106-2, providing final guidance on accounting for the Act. FASB Staff Position 106-2 will be implemented by the Company in the first quarter of fiscal 2005. The Company is currently evaluating the impact of this guidance on the Company s financial position, results of operations and cash flows. Therefore, the accumulated benefit obligation and the net periodic postretirement benefit cost do not reflect the impact of the new law.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to the impact of foreign currency fluctuations and utilizes derivative instruments in a limited manner to modify its exposure to foreign exchange rate movements. The Company s policy is to enter into derivative and other financial instruments only to the extent considered necessary to meet its business objectives. The Company does not enter into these transactions for speculative purposes.

Foreign Exchange Rate Risk

The Company uses foreign exchange forward contracts and options to minimize its exposure to exchange rate movements. The foreign exchange contracts have principally been used to hedge the costs of producing films abroad and have principally been denominated in the Czech Krouna, the Mexican Peso, the South African Rand, the British Pound Sterling, the Moroccan Dirham and the Euro. The Company hedges its anticipated foreign currency exposures related to filmed entertainment production costs over the life of the production (the hedging period). To hedge this exposure the Company uses foreign exchange contracts that generally have maturities of one week to nine months providing continuing coverage throughout the hedging period. The Company designates forward contracts and options used to hedge future production costs as cash flow hedges. At June 30, 2004, the Company did not have any significant contracts for the sale or purchase of equivalents of foreign currencies at fixed rates.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Fox Entertainment Group, Inc.

We have audited the accompanying consolidated balance sheets of Fox Entertainment Group, Inc., a Delaware corporation, and Subsidiaries (the Company), as of June 30, 2004 and 2003 and the related consolidated statements of operations, cash flows and shareholders equity for each of the three years in the period ended June 30, 2004. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Fox Entertainment Group, Inc. and Subsidiaries as of June 30, 2004 and 2003, and the consolidated results of their operations and their cash flows for each of the three years in the period ended June 30, 2004, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 10 to the consolidated financial statements, effective July 1, 2002, the Company changed its method of accounting for goodwill and other intangible assets.

ERNST & YOUNG LLP

Los Angeles, California

August 11, 2004

FOX ENTERTAINMENT GROUP, INC.

CONSOLIDATED BALANCE SHEETS

(IN MILLIONS, EXCEPT SHARE AND PER SHARE AMOUNTS)

	As of June 30,	
	2004	**2003**
Assets:		
Cash and cash equivalents	$ 122	$ 72
Accounts receivable, net	3,002	2,647
Filmed entertainment and television programming costs, net	3,193	3,161
Investments in equity affiliates	8,194	1,560
Property and equipment, net	1,247	1,464
Intangible assets	8,400	8,663
Goodwill	4,758	4,813
Other assets and investments	1,132	919
Total assets	$ 30,048	$ 23,299
Liabilities and Shareholders Equity		
Liabilities:		
Accounts payable and accrued liabilities	$ 1,566	$ 1,665
Participations and residuals payable	1,395	1,141
Television programming rights payable	1,102	1,397
Deferred revenue	318	449
Borrowings	659	
Deferred income taxes	2,063	2,053
Other liabilities	735	797
	7,838	7,502
Due to affiliates of News Corporation	4,236	704
Total liabilities	12,074	8,206
Minority interest in subsidiaries	7	790
Commitments and contingencies		
Shareholders Equity:		
Preferred stock, $.01 par value per share; 100,000,000 shares authorized; 0 shares issued and outstanding		
Class A Common stock, $.01 par value per share; 1,000,000,000 authorized; 426,959,080 and 352,436,375 issued and outstanding as of June 30, 2004 and 2003, respectively	4	4
Class B Common stock, $.01 par value per share; 650,000,000 authorized; 547,500,000 issued and outstanding	6	6
Additional paid-in capital	15,081	12,780
Retained earnings and accumulated other comprehensive income	2,876	1,513
Total shareholders equity	17,967	14,303
Total liabilities and shareholders equity	$ 30,048	$ 23,299

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

FOX ENTERTAINMENT GROUP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

	For the years ended June 30,		
	2004	**2003**	**2002**
Revenues	$ 12,175	$ 11,002	$ 9,725
Expenses:			
Operating	8,396	7,693	7,226
Selling, general and administrative	1,306	1,343	1,293
Depreciation and amortization	175	183	400
Other operating charge			909
Operating income (loss)	2,298	1,783	(103)
Other (Expense) Income:			
Interest expense, net	(166)	(136)	(241)
Equity earnings (losses) of affiliates, net	(5)	(1)	(144)
Minority interest in subsidiaries	(6)	(29)	(37)
Other, net	60		1,540
Income before provision for income taxes and cumulative effect of accounting change	2,181	1,617	1,015
Provision for income tax expense on a stand-alone basis	(828)	(586)	(408)
Income before cumulative effect of accounting change	1,353	1,031	607
Cumulative effect of accounting change, net of tax			(26)
Net income	$ 1,353	$ 1,031	$ 581
Basic and diluted earnings per share before cumulative effect of accounting change	$ 1.44	$ 1.17	$ 0.72
Basic and diluted cumulative effect of accounting change, net of tax, per share			(0.03)
Basic and diluted earnings per share	$ 1.44	$ 1.17	$ 0.69
Basic and diluted weighted average number of common equivalent shares outstanding	938	881	838

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

FOX ENTERTAINMENT GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN MILLIONS)

	For the years ended June 30,		
	2004	**2003**	**2002**
Operating activities:			
Net income	$ 1,353	$ 1,031	$ 581
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	175	183	400
Amortization of cable distribution investments	129	125	116
Other operating charge			909
Cumulative effect of accounting change, net of tax			26
Equity (earnings) losses of affiliates, net	5	1	144
Cash distribution received from investees	68	4	35
Other, net	(60)		(1,540)
Minority interest in subsidiaries	6	11	1
Deferred income taxes	59	218	(56)
Change in operating assets and liabilities, net of acquisitions:			
Accounts receivable and other assets	(383)	(79)	(18)
Filmed entertainment and television programming costs, net	(209)	(99)	267
Accounts payable and accrued liabilities	(213)	(101)	(117)
Participations and residuals payable and other liabilities	246	13	239
Net cash provided by operating activities	1,176	1,307	987
Investing activities:			
Acquisitions, net of cash acquired	(8)	(424)	(332)
Proceeds from sale of investments in equity affiliates	177		1,543
Investments in equity affiliates	(132)	(117)	(321)
Other investments	(69)	(50)	(132)
Purchases of property and equipment, net of acquisitions	(128)	(170)	(80)
Proceeds from sale of business	132		
Disposals of property and equipment	9	9	
Net cash (used in) provided by investing activities	(19)	(752)	678
Financing activities:			
Borrowings	479	95	26
Repayment of borrowings	(556)	(1,042)	(194)
(Decrease) increase in minority interest in subsidiaries	(2)	(7)	6
(Decrease) increase in Preferred Interests	(26)	(88)	8
Proceeds from the issuance of common stock		1,212	
Repayments (to) from affiliates of News Corporation, net	(1,002)	(709)	(1,521)
Net cash used in financing activities	(1,107)	(539)	(1,675)
Net increase (decrease) in cash and cash equivalents	50	16	(10)
Cash and cash equivalents, beginning of year	72	56	66
Cash and cash equivalents, end of year	$ 122	$ 72	$ 56

Cash paid for income taxes	$ 769	$ 401	$ 426
Supplemental information on businesses acquired:			
Fair value of assets acquired	$ 6,802		$ 5,267
Cash acquired			20
Less: liabilities assumed			1,730
cash paid			10
promissory notes issued	4,500		
Fair value of stock consideration	$ 2,302		$ 3,547

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

FOX ENTERTAINMENT GROUP, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY AND OTHER COMPREHENSIVE INCOME

(IN MILLIONS)

	For the years ended June 30,					
	2004		2003		2002	
	Shares	Amount	Shares	Amount	Shares	Amount
Class A Common Stock:						
Balance, beginning of year	352.4	$ 3.6	302.4	$ 3.1	176.6	$ 1.8
Issuance of shares for acquisitions and investments	74.5	0.7	50.0	0.5	125.8	1.3
Balance, end of year	426.9	4.3	352.4	3.6	302.4	3.1
Class B Common Stock:						
Balance, beginning of year	547.5	6.0	547.5	6.0	547.5	6.0
Balance, end of year	547.5	6.0	547.5	6.0	547.5	6.0
Additional Paid-In Capital:						
Balance, beginning of year		12,780		11,569		8,023
Issuance of shares for acquisitions and investments		2,301		1,211		3,546
Balance, end of year		15,081		12,780		11,569
Retained Earnings:						
Balance, beginning of year		1,538		507		(74)
Acquisition of News Broadcasting Japan		(30)				
Net income		1,353		1,031		581
Balance, end of year		2,861		1,538		507
Accumulated Other Comprehensive Income (Loss):						
Balance, beginning of year		(25)		10		11
Other comprehensive income (loss), net of tax (expense) benefit of $(10) million, $42 million and $0 million for the years ended June 30, 2004, 2003 and 2002, respectively		40		(35)		(1)
Balance, end of year		15		(25)		10
Retained earnings and accumulated other comprehensive income, end of year		2,876		1,513		517
Total Shareholders Equity		17,967		14,303		12,095
Comprehensive Income (Loss):						
Net income		1,353		1,031		581

Other comprehensive income (loss), net of tax:			
Minimum pension liability adjustment	23	(70)	(9)
Foreign currency translation adjustments	17	35	8
Total Other comprehensive income (loss), net of tax	40	(35)	(1)
Total Comprehensive Income	$ 1,393	$ 996	$ 580

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

FOX ENTERTAINMENT GROUP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Fox Entertainment Group, Inc. (together with its subsidiaries, the Company) is a diversified entertainment company with operations in four business segments. These business segments are: Filmed Entertainment, which principally consists of the production and acquisition of live-action and animated motion pictures for distribution and licensing in all formats in all entertainment media worldwide and the production of original television programming; Television Stations, which principally consist of the operation of broadcast television stations; Television Broadcast Network, which principally consists of the broadcasting of network programming; and Cable Network Programming, which principally consists of the production and licensing of programming distributed through cable television systems and direct broadcast satellite (DBS) operators. The Company is a majority owned subsidiary of The News Corporation Limited (News Corporation), which owned 82.06% and 80.58% of the equity interest and controlled 97.04% and 97.00% of the voting interest as of June 30, 2004 and 2003, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of all majority-owned and controlled subsidiaries. In addition, the Company reviews its relationships with other entities to assess whether it is the primary beneficiary of a variable interest entity. If the determination is made that the Company is the primary beneficiary, then that entity is consolidated in accordance with Financial Accounting Standards Board (FASB) Interpretation No. (FIN) 46, Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51 as revised in December 2003 (FIN 46R), which was adopted in fiscal 2004.

Fox Television Holdings, Inc. (FTH), a subsidiary of the Company, has 7,600 shares of voting preferred stock issued and outstanding with a liquidation value of $760,000 and cumulative dividends at the rate of 12% per annum. Such shares are held by an executive of the Company and represent 76% of the voting power of FTH. FTH is included in these consolidated financial statements because the Company is deemed to control FTH for financial reporting purposes in accordance with FIN 46R. Among the reasons why the Company has a controlling financial interest in FTH are (i) the Company has the ability to redeem the voting preferred stock, at any time, at the liquidation value of $760,000 plus accrued dividends, (ii) the dividends on, and amounts to be paid on redemption of, the voting preferred stock are fixed, and not related to the performance of FTH, and, (iii) senior management of FTH, including its Board of Directors, consists solely of persons employed by the Company. As a result of these facts, the Company consolidated FTH prior to the adoption of FIN 46R because the controlling financial interest in FTH rests with the Company through its common stock ownership of FTH.

Investments in majority-owned subsidiaries where control does not exist and investments in which the Company exercises significant influence but does not control (generally a 20% to 50% ownership interest) are accounted for under the equity method of accounting. Investments in which there is no significant influence (generally less than a 20% ownership interest) are accounted for under the cost method of accounting.

All significant intercompany accounts and transactions have been eliminated in consolidation.

Acquisitions of controlled entities are accounted for using the purchase method of accounting.

The Company maintains a 52-53 week fiscal year ending on the Sunday nearest to June 30. Fiscal years 2002 through 2004 were comprised of 52-week periods.

RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform to the fiscal 2004 presentation.

USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. The Company uses significant estimates in determining the amortization of filmed entertainment costs and programming contracts. Because the use of estimates is inherent in the financial reporting process, actual results could differ from those estimates. These differences could be material.

FOX ENTERTAINMENT GROUP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

BALANCE SHEET PRESENTATION

As permitted by Statement of Position No. (SOP) 00-2, Accounting by Producers or Distributors of Films, the Company presents an unclassified balance sheet.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on hand and marketable securities with original maturities of three months or less.

FILMED ENTERTAINMENT AND TELEVISION PROGRAMMING COSTS

Filmed Entertainment Costs:

In accordance with SOP 00-2, Filmed entertainment costs include capitalized production costs, overhead and capitalized interest costs, net of any amounts received from outside investors. These costs, as well as participations and talent residuals, are recognized as operating expenses on an individual film basis in the ratio that the current year s gross revenues bear to management s estimate of total ultimate gross revenues from all sources. Marketing costs and development costs under term deals are charged as operating expenses as incurred. Development costs for projects not produced are written-off at the earlier of the time the decision is taken not to develop the story or after three years.

Filmed entertainment costs are stated at the lower of unamortized cost or estimated fair value on an individual motion picture or television product basis. Revenue forecasts for both motion pictures and television products are continually reviewed by management and revised when warranted by changing conditions. When estimates of total revenues and other events or changes in circumstances indicate that a motion picture or television production has a fair value that is less than its unamortized cost, a loss is recognized currently for the amount by which the unamortized cost exceeds the