FOX ENTERTAINMENT GROUP INC
Form 10-K
September 28, 2001

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS
PURSUANT TO SECTION 13 OR 15 (d) OF THE
SECURITIES EXCHANGE ACT OF 1934

(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, 2001

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 (State or Other Jurisdiction of Incorporation or Organization)	95-4066193 (I.R.S. Employer Identification No.)
1211 Avenue of the Americas, New York, New York (Address of Principal Executive Offices)	10036 (Zip Code)

Registrant's telephone number, including area code (212) 852-7111

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

Title of Each Class	Name of Each Exchange on
Class A Common Stock, $.01 par value	New York Stock E

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. [_]

As of September 24, 2001, the aggregate market value of common stock held by non-affiliates of the registrant (based on the closing price on such date as reported on the New York Stock Exchange - Composite Transactions) was $2,315,040,000.

As of September 24, 2001, 298,804,106 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 Notice of 2001 Annual Meeting and Proxy Statement to be filed with the Commission pursuant to Regulation 14A of the Securities Exchange Act of 1934 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 five business segments: (i) Filmed Entertainment; (ii) Television Stations; (iii) Television Broadcast Network; (iv) Other Television Businesses; and (v) Cable Network Programming.

In November 1998, the Company sold 124,800,000 shares of its Class A Common Stock in an initial public offering. The News Corporation Limited ("News Corporation") is the beneficial owner of 174,004,106 shares of Class A Common Stock and 547,500,000 shares of Class B Common Stock, which in the aggregate represent approximately 85.25% of the equity and 97.84% of the voting power of the Company.

The address of the Company's principal executive offices is 1211 Avenue of the Americas, New York, New York 10036, and the telephone number is (212) 852-7111. The Company maintains a 52-53 week fiscal year ending on the Sunday nearest to June 30 in each year. At June 30, 2001, the Company had approximately 11,700 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" and similar expressions and variations thereof are intended to identify forward-looking statements. These statements appear in a number of places in this document and include statements regarding the intent, belief or current expectations of 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 discussed under the headings "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations," in the Company's Registration Statement Form S-1 (SEC file no. 333-61515) as declared effective by the Securities and Exchange Commission on November 9, 1998, 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: Fox Filmed Entertainment ("FFE"), a leading producer and distributor of feature films; Twentieth Century Fox Television ("TCFTV"), a producer of network television programming; and Fox Television Studios ("FtvS"), a leading producer of U.S. broadcast and cable and international programming.

Fox Filmed Entertainment

One of the world's largest producers and distributors of motion pictures, FFE produces, finances, acquires and distributes motion pictures throughout the world under a variety of arrangements. During fiscal 1999, 2000 and 2001, FFE placed 22, 20 and 20 films, 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. Successful motion pictures produced and/or distributed by FFE since the beginning of fiscal 1999 include There's Something About Mary, Entrapment, Never Been Kissed, Star Wars Episode I: The Phantom Menace, The Beach, Big Momma's House, Me, Myself & Irene, X-Men, Cast Away (together with DreamWorks SKG), Moulin Rouge and Dr. Dolittle 2. The Company currently plans to release approximately 27 films in fiscal 2002, including Minority Report (together with DreamWorks SKG), Star Wars Episode II, Unfaithful, Planet of the Apes and Ice Age.

In addition, pursuant to an agreement that became effective at the end of May 1998 with Monarchy Enterprises Holdings B.V. ("MEH"), the parent company of Regency Entertainment (USA), Inc. ("New Regency"), FFE will distribute certain New Regency films and all films co-financed by the Company and New Regency produced over a 15-year term 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. The Company expects to release approximately seven New Regency films during fiscal 2002. In connection with this distribution arrangement, the Company acquired a 20% interest in MEH. The parties also agreed to enter into certain motion picture financing arrangements and formed Regency Television, a 50/50 joint venture to produce television programming through a partnership with FtvS.

Due to increased competition and costs associated with film production, film studios and the Company constantly evaluate the risks and rewards of 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. On March 30, 2001, the Company's film distribution arrangement with an independent third party, New Millennium Investors, LLC ("New Millennium"), expired. The Company acquired the outstanding equity of New Millennium and repaid all of New Millennium's existing debt. Concurrently, the Company entered into a new series of film rights agreements whereby a subsidiary of the Company, Cornwall Venture LLC ("NM2"), that holds certain library film rights will fund the production costs of some films to be produced by Twentieth Century Fox Film Corporation ("TCF"), a subsidiary of the Company, between 2001 and 2004. NM2 issued to a third party a $752 million preferred limited liability membership interest which has no fixed redemption rights but is entitled to an allocation of the gross receipts to be derived by NM2 from the distribution of each film it funds.

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 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 videocassettes and DVDs. In fiscal 2001, the domestic home entertainment division released or re-released over 100 produced and acquired titles, including approximately 70 titles in DVD format. In International markets, the Company distributes produced and acquired titles both directly and through foreign distribution channels, with approximately 400 releases in fiscal 2001, including 30 new FFE releases, nearly 200 catalog titles and approximately 100 television and non-theatrical releases. In addition, the Company has an agreement with Metro-Goldwyn-Mayer ("MGM") to distribute its video product in most International markets in return for certain fees. The Company released over 200 MGM Home Entertainment theatrical, catalog and television programs internationally in fiscal 2001.

Units of FFE license motion pictures and other programs in the United States, Canada and International markets to various third parties and certain affiliated subscription pay television services and pay-per-view 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 arrangements generally provide for a minimum number of scheduled exhibitions of the program during a fixed term, for a license fee based on a percentage of the licensee's gross receipts from the pay-per-view exhibition of the program and, in some cases, a guaranteed minimum fee. Among third-party license agreements that units of FFE have in place in the United States for subscription pay television exhibition of its motion pictures are exclusive 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 Encore and American Movie Classics. Units of FFE also license motion pictures in the United States to direct broadcast satellite ("DBS") pay-per-view services operated by DIRECTV, Inc. and EchoStar Communications Corporation, as well as cable pay-per-view services such as In Demand. 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 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 stated period of time in exchange for a specified license fee.

Twentieth Century Fox Television

During the past three fiscal years, TCFTV produced television programs for the Fox, ABC, CBS, NBC as well as WB broadcast television networks and the USA cable network. TCFTV currently produces or has orders to produce episodes of the following network television series: Bob Patterson, Dharma & Greg and The Practice for ABC, The Education of Max Bickford (a co-production with FtvS), Judging Amy and Yes, Dear (each co-produced with CBS Worldwide, Inc.) for CBS; 24, Ally McBeal, The Bernie Mac Show (a co-production with FtvS), Boston Public, Dark Angel, Emma Brody, Family Guy, Greg the Bunny, Futurama, King of the Hill, The Simpsons, Titus and The X-Files for Fox; Inside Schwartz (a co-production with NBC Studios) and U.C.: Undercover (a co-production with FtvS and NBC Studios) for NBC; Buffy the Vampire Slayer and Roswell (a co-production with FtvS) for UPN; and Angel 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.

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. Successful network television series are licensed (i) for first-run exhibition in Canadian and International markets, (ii) for off-network exhibition in the United States (including in syndication or to cable programmers) and (iii) for syndication in International markets. Such 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. 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.

Fox Television Studios

FtvS was established to create television and video content complementary to TCFTV's activities. It is organized as a group of smaller, entrepreneurial production "pods" that share common executive, management and production infrastructure. In addition to U.S. prime time network series, FtvS also produces programming in a wide variety of genres for a variety of domestic and international programming services. FtvS is grouped into six basic lines of business: (i) network primetime programming through Regency Television and The Greenblatt Janollari Studio, (ii) "alternative," cable and low-cost entertainment programming through FtvS Productions, (iii) movies and mini-series through Fox TV Pictures, (iv) non-fiction programming through Foxstar and Natural History New Zealand; (v) localized programming for international broadcasters through Fox World Productions; and (vi) digital, interactive media through the Fox Foundry. FtvS produces or has orders to produce a variety of network and cable series, including Malcolm in the Middle and The Bernie Mac Show (a co-production with TCFTV) for FOX; Son of the Beach for FX; The Education of Max Bickford (a co-production with TCFTV and CBS Productions) for CBS; U.C.: Undercover, a co-production with TCFTV and NBC Studios) for NBC; and The Hughleys and Roswell (a co-production with TCFTV) for UPN, as well as television movies, mini-series, specials, game and talk shows and non-fictional programming for networks including The National Geographic Channel, USA Network, A&E, Discovery Channel, American Movie Classics, The Learning Channel, Animal Planet and Sky One (U.K.).

Motion Picture and Television Libraries

The Company's motion picture and television library (the "Fox Library") consists of varying rights to over 2,500 previously released films, of which approximately 300 have been released since 1980, and many well-known television series. The motion pictures in the Fox Library include many successful, well-known and well-loved titles, such as The Sound of Music and Miracle on 34th Street, and seven of the top 12 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 and Home Alone. The Company earns significant revenues through the licensing of titles in the Fox Library in many media, including television and home entertainment formats, and through licensing and merchandising of films and characters in films.

In addition, the Fox Library contains varying rights to certain television series and made-for-television motion pictures. The television library contains 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. and Daniel Boone and such recent hits as The Simpsons, The X-Files, NYPD Blue, Ally McBeal, The Practice, King of the Hill, Buffy the Vampire Slayer, Dharma & Greg and Judging Amy (together with CBS Worldwide, Inc.).

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 and commercial tie-ins. Television series and films which have experienced success throughout the world in licensing and merchandising include The Simpsons, The X-Files, Buffy the Vampire Slayer, Dark Angel, the Alien series of motion pictures, Titanic and Planet of the Apes.

Fox Interactive

Fox Interactive produces entertainment computer software and video game titles. Fox Interactive leverages the name recognition and popularity of Fox Library films and television series such as The Simpsons, Buffy the Vampire Slayer, Die Hard, The X-Files and the Alien and Predator series of motion pictures through its line of interactive games.

Fox Music and Music Publishing

Fox Music produces and licenses for distribution through third parties soundtracks of the Company's film and television productions. The Company's successful film and television soundtracks include Moulin Rouge, Titanic, Waiting to Exhale, Romeo + Juliet, Hope Floats, Ally McBeal, The X-Files, Dr. Dolittle and Buffy the Vampire Slayer. In addition, Fox Music Publishing generally owns the publishing rights for songs and scores commissioned for the Company's film and television programming. Fox Music Publishing licenses these rights to third parties for many uses in different media.

Television Stations

During fiscal 2001, Fox Television Stations owned and operated 23 full power stations located in nine of the top 10 largest designated market areas ("DMAs"). As a result of the acquisition of Chris-Craft Industries, Inc. and its subsidiaries (together, "Chris-Craft") and the proposed transactions with each of Viacom, Inc. ("Viacom") and Clear Channel Communications Inc. ("Clear Channel") which are

described below, Fox Television Stations will own and operate 34 full power stations, including two stations in each of New York and Los Angeles, the first and second largest DMAs, respectively.

On July 31, 2001, News Corporation completed its acquisitions of Chris-Craft Industries, Inc. and its subsidiaries, BHC Communications, Inc. and United Television, Inc., for $2.03 billion in cash and the issuance of 68,854,209 preferred American Depositary Receipts ("ADRs") (representing 275,416,836 News Corporation preferred shares). As part of this acquisition, News Corporation transferred all of the assets and liabilities of Chris-Craft , except for cash and certain non-television related assets and liabilities, to the Company in exchange for 122,244,272 shares of its Class A common stock. As a result of this transaction, News Corporation's indirect equity interest in the Company increased from 82.76% to 85.25%. Simultaneously with the receipt of these assets and liabilities, the Company transferred title to the Federal Communications Commission ("FCC") licenses of the 10 newly-acquired television stations to Fox Television Stations.

Eight of the 10 television stations acquired in the Chris-Craft transactions are party to an affiliation agreement with UPN until August 31, 2002. The term of the affiliation agreement may be extended for each of the stations through the end of the 2004-2005 broadcast season at the option of the stations. UPN provides approximately 23 hours of programming a week, including two hour prime time programming blocks five nights a week, to its affiliates. The other two television stations acquired in the Chris-Craft transaction are affiliates of other television networks and subject to the Asset Exchange Agreements described below. All other stations owned by Fox Television Stations are affiliates of FOX. For a description of FOX programming, see "-Television

Broadcast Network."

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The following table lists certain information as of August 2001 about each Fox Television Station, including the stations acquired from Chris-Craft. Unless otherwise noted, all stations are primary affiliates of FOX.

DMA/RANK		STATION	CHANNEL/TYPE		PERCENTA HOUSE
New York, NY	1	WNYW	5	VHF	
		WWOR* (2)	9	VHF	
Los Angeles, CA	2	KTTV	11	VHF	
		KCOP* (2)	13	VHF	
Chicago, IL	3	WFLD	32	UHF	
Philadelphia, PA	4	WTXF	29	UHF	
San Francisco, CA	5	KBHK** (2)	44	VHF	
Boston, MA	6	WFXT	25	UHF	
Dallas, TX	7	KDFW	4	VHF	
		KDFI (3)	27	UHF	
Washington, DC	8	WTTG	5	VHF	
Atlanta, GA	9	WAGA	2	VHF	
Detroit, MI	10	WJBK	5	VHF	
Houston, TX	11	KRIV	26	UHF	
Minneapolis, MN	13	KMSP* (2)	9	VHF	
Tampa, FL	14	WTVT	13	VHF	
Phoenix, AZ	16	KUTP* (2)	45	VHF	
		KSAZ	10	VHF	
Cleveland, OH	17	WJW	8	VHF	
Denver, CO (4)	18	KDVR	31	UHF	
Orlando, FL	20	WRBW* (2)	65	VHF	
St. Louis, MO	22	KTVI	2	VHF	
Portland, OR	23	KPTV* (2)	12	VHF	
Baltimore, MD	24	WUTB* (2)	24	VHF	
Kansas City, MO	31	WDAF	4	VHF	
Milwaukee, WI	33	WITI	6	VHF	
Salt Lake City, UT	35	KTVX** (5)	4	VHF	
		KSTU	13	VHF	
San Antonio, TX	37	KMOL** (6)	4	VHF	
Birmingham, AL	39	WBRC	6	VHF	
Memphis, TN	41	WHBQ	13	VHF	
Greensboro, NC	44	WGHP	8	VHF	
Austin, TX(7)	54	KTBC	7	VHF	
Total:					

Source: Nielsen Media Research, September 2001

* Station acquired in Chris-Craft transactions.
** Station acquired in Chris-Craft transactions and subject to an Asset Exchange Agreement as described below.

(1) VHF stations transmit on Channels 2 through 13 and UHF 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 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 station for purposes of calculating whether that station's owner complies with the 35% national audience reach cap imposed by FCC regulations. 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. See "--Regulation."

(2) UPN affiliate.

(3) Secondary FOX affiliate, carrying the Fox Kids Network.

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

(5) ABC affiliate.

(6) NBC affiliate.

(7) The Company also owns and operates K13VC, Channel 13, Austin, TX, a LPTV (low power television) station. K13VC is a secondary FOX affiliate, carrying the Fox Kids Network.

On August 8, 2001, News Corporation, Fox Television Stations and Viacom entered into an Asset Exchange Agreement pursuant to which Fox Television Stations will exchange television station KBHK (UPN) in San Francisco for two Viacom television stations, WDCA (UPN) in Washington, D.C. and KTXH (UPN) in Houston. On July 31, 2001, News Corporation, Fox Television Stations and Clear Channel entered into an Asset Exchange Agreement pursuant to which Fox Television Stations will exchange two television stations, KTVX (ABC) in Salt Lake City and KMOL (NBC) in San Antonio, for Clear Channel's television station WFTC (FOX) in Minneapolis. These asset exchanges are subject to customary closing conditions and are anticipated to close before the end of the 2001 calendar year.

Regulatory approval of the Chris-Craft acquisition required that the Company divest the television station KTVX in Salt Lake City. This requirement is being satisfied by the Asset Exchange Agreement with Clear Channel described above. In addition, the FCC required the Company to divest sufficient stations to come into compliance with the FCC's national station ownership cap. To comply with this requirement, Fox Television Stations is required to file with the FCC the license assignment applications necessary to come into compliance with the cap within 12 months of the issuance of a final order in a pending legal challenge to the FCC's national ownership rule. Both the Clear Channel and Viacom transactions will reduce the national audience reach of Fox Television Stations and, therefore, assist the Company in complying with the FCC's national station ownership cap.

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 barter 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 cash consideration.

Television Broadcast Network

FOX has 197 affiliated stations, including the full power television stations that are owned by subsidiaries of the Company, which reach approximately 99% of all U.S. television households. In general, each week FOX regularly delivers to its affiliates 15 hours of prime time programming, one hour of late-night programming on Saturday and one hour of Sunday morning news programming. Through the Fox Kids Network, programmed by Fox Family Worldwide, Inc. ("FFW"), FOX regularly delivers to its affiliates 14 hours of children's daytime programming. FOX's prime time programming features such series as The Simpsons, The X-Files, King of the Hill, Ally McBeal, That 70's Show, Malcolm in the Middle, Titus, Boston Public, Dark Angel and various movies and specials. In addition, a significant component of FOX's programming consists of sports programming, with FOX providing live coverage (including post-season) of the National Football Conference of the National Football League ("NFL") and Major League Baseball ("MLB") and live coverage of the premiere racing series (the Winston Cup and the Busch series) of the National Association of Stock Car Auto Racing ("NASCAR") to its affiliates.

FOX derives its revenues from sales in the national advertising marketplace of commercial advertising time. 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 2000-2001 broadcast season, FOX ranked second and one share point out of the lead in regularly scheduled prime time programming based on viewership of adults aged 18-49 (NBC had a 4.8 rating and 13 share, FOX had a 4.5 rating and a 12 share, ABC had a 4.4 rating and a 12 share and CBS

had a 4.0 rating and 11 share). The median age of the FOX viewer is 34 years, as compared to 45 years for NBC, 47 years for ABC and 51 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 and licenses made-for-television films from a number of sources. National sports programming, such as NFL, MLB and NASCAR programming, is obtained under license agreements with professional sports leagues or organizations. In September 2000, the Company entered into a new license with MLB for the 2001-2006 seasons. The Company's current licenses with the NFL and NASCAR extend until the 2005/2006 NFL season and the 2008 NASCAR season.

FOX provides programming to its television station 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 (the "Fox Affiliates"). Such agreements typically run three or more years and have staggered expiration dates. These affiliation agreements generally require FOX's full-time television station affiliates to carry FOX programming in all time periods in which FOX programming is offered to such affiliates, subject to certain exceptions stated in affiliation agreements. In 1999, FOX entered into an arrangement with most of its television station affiliates relating to the amount of commercial advertising time in FOX programming that FOX provides to each affiliate for the affiliate to sell to advertisers ("local commercial advertising time"). Under that arrangement, which runs until 2002, the affiliate pays FOX for additional local commercial advertising time.

Other Television Businesses

The Company is also engaged in television programming, production, distribution and licensing through Twentieth Television. Twentieth Television produces and distributes television programs and distributes feature motion pictures for syndication and on cable television in the United States. Twentieth Television also licenses programming (including feature motion pictures) that it, TCFTV or third parties have produced and which has been previously exhibited on network television. Twentieth Television currently produces and distributes the first-run syndicated programs Divorce Court, Power of Attorney and Texas Justice.

Cable Network Programming

The Company holds interests in cable network programming businesses in the areas of news, sports, general entertainment, family 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")

Fox News is a 24-hour all news cable channel which is currently available to over 67 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.

AT&T, through a predecessor company, holds a warrant to purchase a 20% non-voting common equity interest in Fox News (the "Warrant") exercisable until January 2, 2002 (the "Exercise Date"). The Warrant is exercisable at an exercise price of $200 million plus accrued interest from May 1, 1997 through the Exercise Date. As of June 30, 2001, the exercise price was approximately $280 million. On October 1, 2003, if AT&T has exercised the Warrant and subject to certain conditions, AT&T will have the right to put its equity interest in Fox News to the Company in return for, at the Company's sole option, either (a) cash or (b) an equivalent amount in News Corporation preferred shares. The amount of cash or preferred shares will be calculated based on the appropriate fair market value of the 20% equity interest in Fox News determined by mutual agreement of the parties. If the parties are unable to agree upon a price, the price will be determined by valuation procedures using an independent investment banker.

Fox Sports Networks

Fox Sports Networks operates two principal business units: (i) sports programming operations and (ii) FX Network, a general entertainment network.

Sports programming operations. Fox Sports Net, LLC ("FSN") is the largest regional sports network ("RSN") programmer in the United States, focusing on live professional and major collegiate home team sports events. FSN's sports programming business consists of equity interests in 21 RSNs (the "Fox Sports RSNs") and Fox Sports Net, a national sports programming service, which is owned in a 50/50 partnership between FSN and Rainbow Media Sports Holdings, Inc. ("Rainbow"), an indirect subsidiary of Cablevision Systems Corporation ("Cablevision"). Fox Sports Net provides its affiliated RSNs with 24-hour national sports programming featuring live and replay sporting events and original programming and a national sports news program, National Sports Report.

FSN owns an equity interest in, or through Fox Sports Net is affiliated with, 24 RSNs. These RSNs reach approximately 73 million households and, together with FSN, have rights to telecast live games of 72 professional sports teams in the MLB, National Basketball Association ("NBA") and National Hockey League ("NHL") (out of a total of 80 such teams in the United States) and numerous collegiate sports teams. Because of their home team programming, RSNs have strong local appeal in their respective markets, generating high prime time ratings and attractive subscriber fees from cable operators. FSN's strategy is to utilize its RSNs and Fox Sports Net to build a national cable sports network under the Fox brand name.

FSN owns a 40% interest in Regional Programming Partners ("RPP"), a partnership with Rainbow which owns various interests in RSNs (including two in which FSN owns 50% interests), the New York Knickerbockers NBA franchise, the New York Rangers NHL franchise, the Madison Square Garden entertainment complex, and Radio City Music Hall.

FX Network. Launched in June 1994, FX Networks LLC ("FX") currently reaches approximately 71 million U.S. cable and DBS households. FX is a general entertainment network that combines original programming with acquired television series and feature films. In addition, FX carries sports programming with live coverage of certain NASCAR events and, through the 2001 season, national MLB games airing one night per week. FX's line-up for the Fall 2001 season includes the following syndicated hits from TCFTV: Ally McBeal, The Practice, and Buffy the Vampire Slayer; and original programming, including Son of the Beach, a Howard Stern and FtvS production, and The Toughman World Championship series. FX, which aired three original movies in fiscal 2001, is in production on Sins of the Father, an original movie expected to air in fiscal 2002.

Fox Cable Network Ventures

In March 2001, certain investors in the Speedvision Network LLC ("Speedvision") and Outdoor Life Network LLC ("Outdoor Life") programming services exercised their rights to require the Company to purchase all of the interests held by them in Speedvision and Outdoor Life. The aggregate ownership percentage of the investors was approximately 53.44% and 50.23% of Speedvision and Outdoor Life, respectively. On July 25, 2001, the Company paid total consideration of approximately $401 million and $309 million to purchase the investors' interests in Speedvision and Outdoor Life, respectively, which resulted in the Company owning approximately 85.46% of Speedvision and approximately 83.18% of Outdoor Life. The remaining interests in Speedvision and Outdoor Life are owned by Comcast Corporation ("Comcast"). Shortly following the exercise of the Speedvision and Outdoor Life "put" options described above, the Company entered into a Purchase Agreement with Comcast pursuant to which the Company has agreed to sell its entire interest in Outdoor Life to Comcast. Pursuant to the Purchase Agreement, Comcast elected to call the Company's interest in Outdoor Life on August 23, 2001 for approximately $512 million. The transaction is expected to close during the second quarter of fiscal 2002.

The Speedvision programming service focuses exclusively on the world of racing, including cars, motorcycles, airplanes and boats, and the Outdoor Life programming service provides information and entertainment on nature, the environment and outdoor recreation. Speedvision and Outdoor Life currently reach approximately 43.8 million and 36.7 million U.S. cable and DBS households, respectively.

Fox Cable Network Ventures owns a 40% interest in an entity that owns and operates the Staples Center, a new sports and entertainment complex in downtown Los Angeles, California. Since October 1999, the Staples Center has been the home of the Los Angeles Kings NHL franchise and the Los Angeles Lakers and the Los Angeles Clippers NBA franchises.

Fox Sports International

The Company and Liberty/TINTA LLC, a subsidiary of Liberty Media Corporation ("Liberty/TINTA"), each owns a 50% interest in International Sports Programming Partners ("Fox Sports International"). Fox Sports International holds interests in the following programming services: Fox Sports Latin America (a Spanish language sports network which airs throughout Central and South America), Fox Sports World (a U.S. sports network featuring 24-hour international sports in the English language), Fox Sports World Espanol (a Spanish language sports network featuring international sports which airs in the U.S.) and Fox Sports World-Middle East (an English-language sports network which airs in the Middle East).

On July 15, 2001, Liberty exercised its right, under a pre-existing option, to cause Liberty/TINTA to sell its 50% interest in Fox Sports International to News Corporation in exchange for 3,633,866 ADRs of News Corporation (representing 14,535,464 preferred shares), subject to adjustment for dividends paid since July 1999. Under the terms of this transaction, News Corporation will transfer the acquired interest in Fox Sports International to the Company for approximately 3,632,000 shares of Class A common stock. The transaction is expected to close in the second quarter of fiscal 2002.

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Fox Family Worldwide

FFW is owned 49.5% by the Company and 49.5% by Haim Saban and certain limited partnerships controlled by Mr. Saban.

In December 2000, Haim Saban, Chairman and Chief Executive Officer of FFW, exercised his right to require FOX to purchase all of the Class B common stock of FFW held by Mr. Saban, other former stockholders of Saban Entertainment, Inc. and their transferees (the "Saban Interest"). In January 2001, a subsidiary of FOX exercised its option to purchase the Saban Interest. In July 2001, the Company, Haim Saban and the other stockholders of FFW and subordinated debtholders reached a definitive agreement to sell FFW to The Walt Disney Company ("Disney") for total consideration of approximately $5.3 billion (including the assumption of certain debt). FOX has entered into an arm's-length programming arrangement with Disney to allow the continued broadcast for the 2001-2002 broadcast season of certain FFW programming on FOX affiliates through the Fox Kids Network following closing of the FFW sale to Disney. This transaction is expected to close during the second quarter of fiscal 2002.

FFW is an integrated family and children's entertainment company that develops, acquires, produces, broadcasts and distributes live-action and animated family and children's television programming on a global basis. FFW's principal operations are comprised of (i) the Fox Family Channel; (ii) the Fox Kids Network; and (iii) the Fox Kids International Networks, including Fox Kids Europe, N.V. ("FKE") and Fox Kids Latin America ("FKLA").

The Fox Family Channel is a basic cable network that currently provides family oriented programming reaching approximately 96% of all U.S. cable and DBS households. The Fox Family Channel maintains a family image and general entertainment format with a schedule, look, marketing campaign and on-air packaging designed to appeal to the adult 18-49 and 25-54 demographics during prime time and evenings and to children and tweens (early adolescents, approximately ages 9-14) during the day. From 6 p.m. to 11 p.m. and from midnight to 1 a.m., the Fox Family Channel telecasts programming intended to appeal to adults ages 18-49 and 25-54 and carries advertising sold on the basis of adult demographics. The channel's prime time strategy is to deliver adults ages 18-49 and 25-54 a balanced mix of off-network series (such as 7/th/ Heaven, Freaks and Geeks, Step by Step and Providence), movies, specials and original programming (such as the Fox Family original dramedy State of Grace), all of which is suitable for family viewing. From 7 a.m. to 6 p.m., the Fox Family Channel telecasts programming targeted principally to children and tweens.

The Fox Kids Network, one of the leading U.S. children's broadcasting television networks, broadcasts 14 hours of children's programming each week to 97% of U.S. television households.

FFW, through its subsidiaries, creates, produces and acquires animated and live-action children's television programming with brand-name characters and elements which are either widely known to children, such as the Mighty Morphin Power Rangers, Digimon and NASCAR Racers, or which are or have been developed or purchased due to their likelihood of maturing into popular brands. FFW produced, financed or co-financed approximately 370 episodes of children's television programming for the year ended June 30, 2001 and had approximately 380 episodes in production on June 30, 2001. FFW currently distributes its children's programming in more than 400 terrestrial, cable and satellite channels in over 100 countries around the world.

FKE owns the broadcast, distribution and home video rights to children's television series and specials and all merchandising and internet rights to children's programming and properties held by FFW for the territories of Europe (including Central and Eastern Europe), the Middle East (except Israel) and certain Caribbean and French speaking African and South Pacific territories. FKE has

operations in many countries in Europe and currently is broadcasting 11children's channel feeds in 16 different languages via cable and satellite transmission to 54 countries, reaching approximately 24.9 million households. In addition, FKE has a network of 17 fully-localized online web sites.

FKLA was launched in November 1996 and currently reaches approximately 9.6 million households in 19 countries in two different languages.

National Geographic Channels

The Company, NBC and National Geographic Television ("NGT") each own approximately 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, Asia and Latin America. In January 2001, the Company and NGT launched the National Geographic Channel in the United States. The National Geographic Channel currently reaches approximately 15 U.S. cable and DBS households. The Company holds a 66.67% interest in NGC Network US, LLC, the producer of the U.S. channel, with NGT holding the remainder. 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 133 countries internationally, as well as the United States. National Geographic programming is provided in Australia, certain countries in Europe and Scandinavia by a partnership in which British Sky Broadcasting Limited, NBC and NGT are currently partners.

The Golf Channel

In June 2001, the Company sold its approximately 31% interest in TGC, Inc., which owns and operates The Golf Channel, to Comcast, for total consideration of approximately $375 million. The Golf Channel broadcasts studio shows and has rights to broadcast certain Professional Golfers' Association ("PGA") tournaments and other European PGA, Australian PGA, LPGA and Nike Tour events.

WebMD/The Health Network

In January 2000, the Company completed a series of integrated transactions with Healtheon\WebMD Corporation ("WebMD") to exchange, among other things, media services and its interest in The Health Network ("THN"), a health-focused cable network, for a preferred stock interest in WebMD. On December 29, 2000, the Company, News Corporation and WebMD entered into an agreement to restructure the initial integrated transactions, which resulted in the Company agreeing to exchange its entire preferred stock investment to WebMD in exchange for, among other things, WebMD's interest in THN. The Company will continue to provide domestic media services over 10 years and will remain obligated for cash payments to WebMD of $27.5 million over four years. In June 2001, the Company completed the previously announced sale of its entire interest in THN for cash of approximately $155 million, of which $100 million was paid at closing and $55 million is due one year from closing, and a 10% carried interest in the equity of the acquirer with a minimum guarantee value of $100 million in December 2003.

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Fox Movie Channel

Launched in November 1994 and currently reaching approximately 12 million U.S. cable and DBS households, Fox Movie Channel ("FMC"), which is wholly-owned by the Company, is Hollywood's first and only studio-based movie network. FMC showcases commercial-free contemporary hits and classics from the Fox Library.

Los Angeles Dodgers

The Company owns and operates the Los Angeles Dodgers MLB franchise (the "Dodgers") along with Dodger Stadium and other related real estate including Dodgertown, the home of the Dodgers' spring training facilities in Vero Beach, Florida. The Company acquired its interest in the Los Angeles Dodgers, Inc. in April 1998. The Dodgers are currently in their 111th year in the National League and in each of the last five seasons have achieved attendance of over three million fans at Dodger Stadium.

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 Central and South America. Canal Fox broadcasts in the Portuguese language in Brazil and in the Spanish language in the rest of Central and South America. The channel's programming line-up consists of movies, 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, Cinecanal 1 and its multiplex channel, Cinecanal 2) and one basic television channel (The Film Zone) 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, a limited liability company 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.

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 films 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 films 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 the motion pictures produced and distributed by it. In addition, television networks are now producing more programs internally and thus 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 (e.g., DVD) and with other methods of distribution, such as video-on-demand, as well as risks associated with controlling copying and unauthorized distribution of the Company's programs.

Television Stations, Television Broadcast Network and Other Television Businesses

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, more appealing to advertisers. ABC, NBC and CBS also realize greater advertising revenues than FOX for most of their programming in various time periods.

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 various rating services, 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 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.

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. FSN is currently the only programming service distributing a full range of sports programming on both a national and regional level. On a national level, FSN's primary competitor is ESPN, and to a lesser extent, ESPN2. In addition, ESPNews and CNNSI each offers 24 hour sports news formats which compete directly with the National Sports Report. In regional markets, the Company's RSNs compete with other regional sports networks, including those operated by team owners 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 principally 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 regional sports network 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 Company's RSNs.

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

Fox Family Worldwide

FFW competes, through the Fox Kids Network and the Fox Family Channel, with the other broadcast television networks, public television and cable television channels, such as Cartoon Network, Kids WB, the Disney Channel and Nickelodeon for market acceptance of its programming and for viewership ratings and advertising revenues. To the extent that FFW produces original programming for distribution outlets it does not own, it competes with other producers of children's programming. Internationally, FFW competes with a large number of U.S. based and international distributors of children's programming, including Disney, Warner Bros. and Nickelodeon, in the development or acquisition of programming expected to appeal to international audiences. Such programming often must comply with foreign broadcast rules and regulations, which may stipulate certain minimum local content requirements.

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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, Television Broadcast Network & Other Television Businesses

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 lesser 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 34 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. Twenty-three of the Fox Television Stations have launched digital facilities. The FCC will require completion of digital facilities in the remaining 11 Fox Television Stations by May 1, 2002. 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 August 6, 1999 the FCC amended the rules that determine what constitutes a "cognizable interest" in applying its media cross-ownership restrictions (the "Attribution Rules"), as well as the rules that govern the ownership of two television stations, or a television station and a radio station, located in the same market (the "Local Restriction"). Under the new Attribution Rules, a party will be deemed to have a cognizable interest in a television or radio station, cable system or daily newspaper ("Media Outlet") that triggers the FCC's cross-ownership restrictions if (i) it owns 5% or more of the voting stock in the Media Outlet; (ii) its interest exceeds 33% of the total asset value (equity plus debt) of the Media Outlet and it either (x) supplies at least 15% of a station's weekly broadcast hours or (y) has a cognizable interest in another Media Outlet in the same market. Under the new Attribution Rules, Local Marketing Agreements ("LMAs") are cognizable interests if the brokering station provides more than 15% of the brokered station's broadcast hours per week. The FCC also eliminated its "cross interest" policy, which had prohibited common ownership of a cognizable interest in one Media Outlet and a "meaningful" non-cognizable interest in another Media Outlet serving essentially the same market.

The FCC relaxed the Local Restriction to (i) permit the ownership of two television stations with overlapping coverage areas if the stations are in separate DMAs; (ii) permit common 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 after the stations which had been independently owned become commonly owned (which is referred to by the FCC as a "merger"), and one of the stations is not among the top four-ranked stations in the market, based on audience share. The remaining Local Restriction can be waived if one of the stations is "failed" or "failing," or where the merger would result in the construction and operation of an "unbuilt" station. The FCC also relaxed its radio-television cross-ownership rule to permit some degree of same-market radio and television joint ownership. These changes in the FCC ownership restrictions permitted Fox Television Stations to acquire second television stations in New York, Los Angeles and Phoenix.

FCC rules permit a party to have a cognizable 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 application of the UHF Discount, 35% of U.S. television households (the "National Restriction"). Pursuant to Congressional directive, the FCC conducted a formal review of all its broadcast ownership rules and on June 20, 2000, released a decision in which it refused to modify the National Restriction, retained the UHF Discount and commenced proceedings to further review and modify the dual network and newspaper/broadcast cross-ownership rule. Fox Television Stations has appealed the FCC's decision to retain the National Restriction. It is not possible to predict whether the appeal will be successful or the timing or effect of other changes in FCC rules or policies pursuant to the 1996 Telecom Act or pending FCC proceedings.

The FCC has adopted rules requiring closed captioning of most broadcast and cable programming on a phased-in basis, beginning in the year 2000. The broadcast and cable industries

have adopted, and the FCC has approved, a voluntary content ratings system which, when used in conjunction with so-called "V-Chip" technology, will permit the blocking of programs with a common rating. The FCC has directed that all television receiver models with picture screens 13 inches or greater be equipped with "V-Chip" technology under a phased implementation which began July 1, 1999. On July 21, 2000, the FCC adopted a rule requiring broadcasters and multichannel video programming distributors ("MVPDs") to supply "video descriptions" of their programming. Video descriptions, which are transmitted on a separate audio channel and are accessible through a decoding device attached to TV sets, are narrative descriptions of a program's visual aspects and are intended for the visually impaired. The FCC's rules require stations located in the top 25 DMAs and affiliated with one of the major television networks, including Fox, to provide video descriptions for at least 50 hours of prime time and/or children's programming per calendar quarter commencing April 1, 2002. The rules also require MVPDs with 50,000 or more subscribers to provide 50 hours per calendar quarter of prime time and/or children's programming with video descriptions on each of the top five national non-broadcast networks they carry commencing April 1, 2002.

FCC regulations implementing the 1992 Cable Act require each television broadcaster to elect, at three-year intervals beginning June 17, 1993, 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 constitutionality of the analog must carry provisions was upheld by the U.S. Supreme Court. The FCC has initiated a rulemaking proceeding to determine carriage requirements for digital broadcast television systems on cable systems, including carriage during the period of transition from analog to digital signals. The Satellite Home Viewer Improvement Act of 1999 ("SHVIA") requires satellite carriers, by 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.

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 have, 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. The FCC has indicated its intent to enforce its children's television rules strictly.

The FCC continues to enforce strictly its regulations concerning "indecent" programming, political advertising, environmental concerns, technical operating matters and antenna tower maintenance. The FCC also has traditionally enforced its equal employment opportunity rules vigorously with respect to recruitment efforts and recordkeeping requirements. In addition, 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 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 regulations 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 multichannel program distributors in the price, terms and conditions of sale or delivery of programming. With respect to cable systems having channel capacity of less than 76 channels, the FCC's regulations limit to 40% the number of programming channels that may be occupied by video programming services in which the cable operator has an attributable interest. As a result of Liberty's ownership interest in News Corporation, the Fox Family Channel, cable networksoperated by the Fox Cable Networks Group and Fox News Channel are subject to these requirements. Similarly, Cablevision is deemed to have an attributable interest in RPP. The FCC's program access and non-discrimination regulations therefore restrict the ability of these cable programming services to enter into exclusive contracts. The rules also permit multichannel video programming distributors (such as multi-channel multi-point distribution services ("MMDS"), satellite master antenna televisions ("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. While cable systems are expanding their capacity, there may be instances in which a Cablevision cable system with 75 channels or less will not be able to carry an RPP channel or will have to remove another affiliated channel.

The FCC's regulations concerning the commercial limits in children's programs and political advertising also apply to certain cable television programming services carried by cable system operators. The Company must provide program ratings information and increased closed captioning of its cable programming services to comply with FCC regulations, and may have to provide video descriptions on some of its services, which could increase its operating expenses.

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. Online services provided by the Company may be subject to COPPA 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, as well as the Fox News studios at 1211 Avenue of the Americas, New York, New York. These offices cover approximately 284,000 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 320,000 square feet of office space at Fox Plaza, located adjacent to the Fox Studios Lot. 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, a 50/50 joint venture between the Company and Lend Lease Corporation, has entered into a 40-year lease, with a 10-year renewal option, with respect to integrated film and

television production and public entertainment facilities in Sydney, Australia, which consists of approximately 60 acres.

The Company owns Dodger Stadium, which is situated on approximately 275 acres in Los Angeles. The Company completed a sale-leaseback transaction in September 2001 with civic authorities and private developers for Dodgertown, the Dodger's spring training facility, which is located on 467 acres in Vero Beach, Florida. The Company will retain the use of the facility as the Dodgers spring training facility.

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

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.

Executive Officers of the Company

Set forth below is certain information concerning the executive officers of the Company as of September 28, 2001, which information is hereby included in Part I of this report.

The Executive Officers of the Company are as follows:

Name	Age	Position
K. Rupert Murdoch	70	Chairman and Chief Executive Officer
Peter Chernin	50	President, Chief Operating Officer
David F. DeVoe	54	Senior Executive Vice President, Chief Fina
Arthur M. Siskind	62	Senior Executive Vice President, General Co

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.

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

Name	Age	Position
James N. Gianopulos	49	Chairman of Fox Filmed Entertainment
David Hill	55	Chairman and Chief Executive Officer of Fox Sports Television Group
Thomas E. Rothman	46	Chairman of Fox Filmed Entertainment
Mitchell Stern	47	Chairman and Chief Executive Officer of Fox

Television Stations

Backgrounds of Executive Officers and Senior Executives

K. Rupert Murdoch 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 plc, News Corporation's principal subsidiary in the United Kingdom, since 1969, and a Director of News America Incorporated, 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 June 1999 and as a Director of FFW since 1996. Mr. Murdoch is also a member of the board of directors of Philip Morris Companies, Inc. and China Netcom Corporation (Hong Kong) Limited.

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 FOX from 1989 until 1992. Mr. Chernin served as a Director of TV Guide, Inc. from 1999 until July 2000 and has been a Director of Sky Global Networks, Inc. ("SGN") since June 2001. Mr. Chernin has served on the Advisory Board of PUMA AG since 1999, and as a Director of E*TRADE Group, Inc. since 1999.

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 January 1998. Mr. DeVoe served as Executive Vice President of NAI from 1991 to 1998. Mr. DeVoe has been a Director of SGN since June 2001, NDS Group plc since 1996, STAR since 1993 and BSkyB since 1994.

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 SGN since June 2001, 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.

James N. Gianopulos has been Chairman of FFE since July 2000. He shares the position with Thomas E. Rothman. Mr. Gianopulos was President of Twentieth Century Fox International from 1994 until July 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 and KCRW for National Public Radio.

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 July 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 Sundance Institute.

Mitchell Stern has been Chairman and Chief Executive Officer of Fox Television Stations since 1998. Mr. Stern was President and Chief Operating Officer of Fox Television Stations, Inc. from 1993 to 1998.

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 September 24, 2001, there were approximately 838 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 2000	High	Low
First Quarter	$ 26.19	$ 21.13
Second Quarter	$ 26.19	$ 20.44
Third Quarter	$ 29.81	$ 22.25
Fourth Quarter	$ 33.31	$ 23.44

Fiscal 2001	High	Low
First Quarter	$ 34.00	$ 25.88
Second Quarter	$ 25.25	$ 15.81
Third Quarter	$ 24.15	$ 17.88
Fourth Quarter	$ 29.28	$ 19.20

Fiscal 2002	High	Low
First Quarter (through September 24, 2001)	$ 27.95	$ 18.26

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.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The selected historical consolidated financial data of the Company presented below for the year ended June 30, 2001, 2000, and 1999 and as of June 30, 2001 and 2000 have been derived from, and are qualified by reference to, the audited consolidated financial statements of the Company included elsewhere herein. The selected historical consolidated financial data of the Company presented below for the year ended June 30, 1998 and 1997 and as of June 30, 1999, 1998 and 1997 have been derived from our audited consolidated financial statements, which are not included herein. The financial statements prior to November 11, 1998 were presented on a combined basis. The financial statements presented subsequent to November 11, 1998 are consolidated to reflect the Reorganization (as defined in Note 1 of the Notes to the Consolidated Financial Statements). For reporting purposes, the financial statements for all periods are collectively referred to as Consolidated Financial Statements. The selected consolidated financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements and the related Notes thereto and the other financial information included elsewhere herein.

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	YEAR ENDED JUN		
	2001 (1)	2000 (2)	1999
STATEMENT OF OPERATIONS DATA:	(in millions, except per		
Total revenues	$ 8,504	$ 8,589	$ 8,057
Operating income	652	656	716
Income (loss) before cumulative effect of accounting change	206	145	205
Net income (loss)	(288)	145	205
Basic and diluted earnings per share before cumulative effect of accounting change	$ 0.28	$ 0.20	$ 0.33
Basic and diluted earnings (loss) per share	$ (0.40)	$ 0.20	$ 0.33
Operating Income Before Depreciation and Amortization /(4)/	$ 1,129	$ 1,096	$ 1,031
STATEMENT OF CASH FLOWS DATA:			
Net cash provided by (used in) operating activities	$ (153)	$ (253)	$ 753
Net cash provided by (used in) investing activities	(176)	(536)	(615)
Net cash provided by (used in) financing activities	281	782	(118)

	AS OF JUNE		
	2001	2000 (2)	1999
BALANCE SHEET DATA:	(in million		
Cash and cash equivalents	$ 66	$ 114	$ 121
Total assets	17,856	17,930	13,163
Due to affiliates of News Corporation	2,866	2,739	1,389
Borrowings	1,032	974	53
Shareholders' equity	7,968	8,246	6,668

FOOTNOTES:

(1) Fiscal 2001 Net income (loss) and Basic and diluted earnings (loss) per share include the impact of the one-time, after-tax charge of $494 million for the cumulative effect of accounting change.
(2) Fiscal 2000 includes the operating results of the Fox Sports Networks, LLC, which was fully acquired in July 1999 ("the Fox Sports Networks Acquisition").
(3) Fiscal 1997 includes the operating results of the ten television stations acquired as part of the January 1997 acquisition of New World Communications Group, Inc. ("the New World Acquisition").
(4) Operating Income Before Depreciation and Amortization is defined as operating income (loss) before depreciation and amortization, which includes the amortization of acquired intangible assets and cable distribution investments. While Operating Income Before Depreciation and Amortization is considered to be an appropriate measure for evaluating operating performance by management, 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 audited consolidated financial statements included elsewhere in this filing.

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

General

The following discussion and analysis of the Fox Entertainment Group Inc.'s (the "Company") financial condition and results of operations should be read in conjunction with the Consolidated Financial Statements and the related Notes thereto included elsewhere herein.

The Company manages and reports its businesses in five 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; Television Stations, which principally consists of the operation of broadcast television stations; Television Broadcast Network, which principally consists of the broadcasting of network programming; Other Television Businesses, which represents other broadcast television and production related activities; and Cable Network Programming, which principally consists of the production and licensing of programming distributed through cable television systems and DBS operators, and professional sports team ownership. The Company's equity interests in certain cable network programming and related ventures, including Fox Family Worldwide, Inc. ("FFW"), Fox Cable Networks Ventures, Inc., Regency Television, The National Geographic Channels and International Sports Programming Partners ("Fox Sports International"), are included in Equity losses of affiliates and, accordingly, are not reported in the segments set forth above. Additionally, through the Company's subsidiary, Fox Sports Networks, the Company holds equity interests in cable-related businesses (the "Fox Sports Networks' domestic" affiliates), including Regional Programming Partners ("RPP"), National Sports Partners ("NSP"), National Advertising Partners ("NAP"), Speedvision Network LLC ("Speedvision") and Outdoor Life Network LLC ("Outdoor Life"), that are likewise reported in Equity losses of affiliates and, accordingly, are not reported in the Cable Network Programming segment.

Sources of Revenue

Filmed Entertainment. The Filmed Entertainment segment derives revenue from theatrical distribution, home video and DVD 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, home video and DVD releases, the number of its original and returning television series that are aired by television networks and the number of its television series licensed in off-network syndication. Theatrical release dates are determined by several factors, including timing of vacation and holiday periods and competition in the marketplace. Each motion picture is a separate and distinct product with its financial success dependent upon many factors, including audience acceptance.

Television Stations, Television Broadcast Network and Other Television Businesses. The three reportable television segments derive their 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 23 owned and operated television broadcast stations in their respective markets. The sale of advertising time is affected by viewer demographics, program ratings and market conditions. Adverse changes in general market conditions for advertising may affect revenues.

Cable Network Programming. The Cable Network Programming segment derives revenues from monthly affiliate fees based on the number of subscribers as well as from the sale of advertising time. Monthly affiliate fees are dependent on maintenance of carriage arrangements with cable

television systems and DBS operators. The sale of advertising time is affected by viewer demographics, program ratings and general market conditions. Adverse changes in general market conditions for advertising may affect revenues.

Components of Expenses

Filmed Entertainment. Operating costs incurred by the Filmed Entertainment segment include the amortization of capitalized production, overhead and interest costs; participations and talent residuals; and exploitation costs, primarily prints and advertising (through June 30, 2000). Selling, general and administrative expenses include salaries, employee benefits, rent and other routine overhead.

At the beginning of fiscal 2001, the Company adopted Statement of Position 00-2, "Accounting by Producers or Distributors of Films" ("SOP 00-2"), which established new accounting standards for producers and distributors of films and supersedes Statement of Financial Accounting Standards ("SFAS") No. 53, "Financial Reporting by Producers and Distributors of Motion Picture Films". SOP 00-2 establishes new accounting standards for, among other things, marketing and development costs. The Company recorded a one-time, non-cash charge of $494 million, net of $302 million tax, as a cumulative effect of accounting change as of July 1, 2000. This charge primarily reflects the write-off of marketing and certain development costs, which were previously capitalized under SFAS No. 53 and are no longer capitalizable under SOP 00-2. Subsequent to the adoption of SOP 00-2, the Company's accounting policy is to expense marketing and certain development costs as incurred. These costs are included within Operating expenses in the consolidated statement of operations.

Television Stations, Television Broadcast Network, Other Television Businesses and Cable Network Programming Segments. Operating expenses of the three television segments and the Cable Network Programming segment include expenses related to acquiring programming and rights to programming. Operating expenses also typically include production and technical expenses related to operating the technical facilities of the broadcaster or cable network. Selling, general and administrative expenses include all promotional expenses related to improving the market visibility and awareness of the broadcaster or cable network and sales commissions paid to the in-house sales force involved in the sale of advertising as well as salaries, employee benefits, rent and other routine overhead. Depreciation and amortization expense includes the amortization of acquired intangible assets and cable distribution investments.

Industry Accounting Practices

Revenue Recognition. Revenues from theatrical distribution of feature films are recognized on the dates of exhibition. Revenues from home video and DVD distribution, together with related costs, are recognized in the period in which the product is made widely available for sale by retailers. Revenues from television distribution are recognized when the motion picture or television program is made available to the licensee for broadcast. Television advertising revenue is recognized as the commercials are aired. Subscriber fees received from cable systems and DBS operators are recognized as revenue when services are provided. Revenues from professional team ownership are recognized on a game by game basis.

Operating Expenses. In accordance with generally accepted accounting principles ("GAAP") and industry practice, 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 revenue earned in the current period for such title bears to management's estimate of the total revenues or operating profits to be realized from all media and markets for such title. The costs of 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 operating profit of the contract. Program rights for entertainment programs and sporting contracts for the Television Stations and Cable Network Programming segments are amortized over the license period. 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.

At the beginning of fiscal 2001, the Company adopted SOP 00-2, which established new accounting standards for producers and distributors of films and supersedes SFAS No. 53. SOP 00-2 establishes new accounting standards for, among other things, marketing and development costs. The Company recorded a one-time, non-cash charge of $494 million, net of $302 million tax, as a cumulative effect of accounting change as of July 1, 2000. This charge primarily reflects the write-off of marketing and certain development costs, which were previously capitalized under SFAS No. 53 and are no longer capitalizable under SOP 00-2. Subsequent to the adoption of SOP 00-2, the Company's accounting policy is to expense marketing and certain development costs as incurred.

Use of Operating Income Before Depreciation and Amortization

Management believes that an appropriate measure for evaluating the operating performance of the Company's business segments is Operating Income Before Depreciation and Amortization. Operating Income Before Depreciation and Amortization provides a basis to measure liquidity and operating performance of each business segment. 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), Operating Income Before Depreciation and

Amortization provides management a measure to analyze operating performance against historical and competitors' data. Operating Income Before Depreciation and Amortization eliminates the uneven effect across business segments of considerable amounts of depreciation and amortization primarily resulting from the value of intangible assets acquired in business combinations accounted for by the purchase method of accounting. Operating Income Before Depreciation and Amortization is defined as operating income (loss) plus depreciation and amortization, which includes the amortization of acquired intangible assets and cable distribution investments. 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. However, Operating Income Before Depreciation and Amortization 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 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.

YEAR ENDED JUNE 30,

(in millions)

	REVENUES			OPERATING INCOME		
	2001	2000	1999	2001	2000	1999
Filmed Entertainment	$ 3,585	$ 3,856	$ 4,416	$ 286	$ 128	$ 355
Television Stations	1,550	1,635	1,469	499	585	557
Television Broadcast Network	1,823	1,751	1,743	(65)	29	(32
Other Television Businesses	91	97	118	(9)	(11)	(7
Cable Network Programming	1,455	1,250	311	(59)	(75)	(157
Total	$ 8,504	$ 8,589	$ 8,057	$ 652	$ 656	$ 716

FOOTNOTE:

(1) Operating Income Before Depreciation and Amortization is defined as operating income (loss) before depreciation and amortization, which includes that amortization of acquired intangible assets and cable distribution investments. While Operating Income Before Depreciation and Amortization is considered to be an appropriate measure for evaluating operating performance by management, 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 audited consolidated financial statements included elsewhere in this filing.

Results of Operations - Fiscal 2001 versus Fiscal 2000

The following table sets forth the Company's operating results, by segment, for fiscal 2001 as compared to fiscal 2000.

	Year En	
	2001	
		(i
Revenues:		
Filmed Entertainment	$ 3,585	$
Television Stations	1,550	
Television Broadcast Network	1,823	
Other Television Businesses	91	
Cable Network Programming	1,455	
Total revenues	$ 8,504	$
Operating income (loss):		
Filmed Entertainment	$ 286	
Television Stations	499	
Television Broadcast Network	(65)	
Other Television Businesses	(9)	
Cable Network Programming	(59)	
Total operating income (loss)	652	
Interest expense, net	(345)	
Equity losses of affiliates	(92)	
Minority interest in subsidiaries	(14)	
Other income (expense)	190	
Income before income taxes and cumulative effect of accounting change	391	
Income tax expense on a stand-alone basis	(185)	
Income before cumulative effect of accounting change	206	
Cumulative effect of accounting change, net of tax	(494)	
Net income (loss)	$ (288)	$
Other data:		
Operating Income Before Depreciation and Amortization/(1)/:		
Filmed Entertainment	$ 350	
Television Stations	683	
Television Broadcast Network	(45)	
Other Television Businesses	(8)	
Cable Network Programming	149	
Total Operating Income Before Depreciation and Amortization	$ 1,129	$

	Year Ended June 30,	
	2001	2000
		(in millions)
Depreciation and amortization:		
Filmed Entertainment	64	$ 51
Television Stations	184	189
Television Broadcast Network	20	18
Other Television Businesses	1	-
Cable Network Programming	208	182
Total depreciation and amortization	$ 477	$ 440

FOOTNOTE:

(1) Operating Income Before Depreciation and Amortization is defined as operating income (loss) before depreciation and amortization, which includes the amortization of acquired intangible assets and cable distribution investments. While Operating Income Before Depreciation and Amortization is considered to be an appropriate measure for evaluating operating performance by management, 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 audited consolidated financial statements included elsewhere in this filing.

Overview of Company Results. For the fiscal year ended June 30, 2001, revenues of $8,504 million declined slightly compared to the $8,589 million reported for the prior year. Decreased revenues from the Filmed Entertainment and Television Stations segments were partially offset by a 16% increase in revenue at the Cable Network Programming segment. In aggregate, Operating, Selling, general and administrative, and Depreciation and amortization expenses were flat compared to the corresponding period of the prior year. Operating expenses decreased approximately 3% compared to fiscal 2000 due to savings resulting from the production of fewer new series as compared to the prior year. Selling, general and administrative expenses increased approximately 9% from the corresponding period of the prior year mainly due to an increase in bad debt reserve and overhead expenses. Depreciation and amortization increased approximately 8% due to increased amortization of cable distribution investments at the Cable Network Programming segment. The Company reported operating income of $652 million for the year ended June 30, 2001, as compared to $656 million reported in fiscal 2000. Operating Income Before Depreciation and Amortization of $1,129 million increased approximately 3% over the $1,096 million reported in the corresponding period in the prior year. These increases relate to the improved operating results at the Filmed Entertainment and Cable Network Programming segments.

Equity losses of affiliates of $92 million increased $2 million from fiscal 2000 due to decreased contributions from FFW resulting from the prior year's one-time gain related to the Fox Kids Europe N.V.'s ("FKE") initial public offering ("IPO") and the January 2001 launch of the National Geographic Channel in the US, which offset improved results due to subscriber growth at the Fox Sports Networks' domestic equity affiliates.

At the beginning of fiscal 2001, the Company adopted SOP 00-2, which established new accounting standards for producers and distributors of films and supersedes SFAS No. 53. SOP 00-2 establishes new accounting standards for, among other things, marketing and development costs. The Company recorded a one-time, non-cash charge of $494 million, net of $302 million tax, as a cumulative effect of accounting change as of July 1, 2000. This charge primarily reflects the write-off of marketing and certain development costs, which were previously capitalized under SFAS No. 53 and are no longer capitalizable under SOP 00-2. Subsequent to the adoption of SOP 00-2, the Company's accounting policy is to expense marketing and certain development costs as incurred.

Net loss for the year ended June 30, 2001 was $288 million ($0.40 loss per share) as compared to net income of $145 million ($0.20 per share) for the corresponding period of the prior year. This decrease primarily relates to the $494 million after-tax charge for the adoption of SOP 00-2

and a non-recurring charge related to the restructuring of the Company's relationship with Healtheon/WebMD Corporation ("WebMD"). These charges were partially offset by gains related to the sales of the Company's interest in The Golf Channel and Home Team Sports.

Filmed Entertainment. For the twelve months ended June 30, 2001, Filmed Entertainment's revenues decreased 7% compared to the corresponding period of the prior year. Decreased revenues from international theatrical releases were partially offset by increased revenues from domestic theatrical releases, international free television revenues, and network revenues. Operating income and Operating Income Before Depreciation and Amortization increased by 123% to $286 million and by 96% to $350 million, respectively, for fiscal year 2001. In the current year, theatrical and catalog releases overall performed better than releases in the prior year. The current year's results included the strong worldwide theatrical and video performance of X-Men, strong growth in video catalog sales primarily due to growth in the DVD market, the broadcast network release of Titanic and the solid performance of releases in international free television markets. These results were partially offset by losses from Monkeybone, The Legend of Bagger Vance and Say It Isn't So. At the beginning of fiscal 2001, the Company adopted SOP 00-2 changing its film accounting policies; accordingly operating income and Operating Income Before Depreciation and Amortization were further offset by the releasing costs for Moulin Rouge, Dr. Dolittle 2, Planet of the Apes and Kiss of the Dragon, which are now, under SOP 00-2, expensed as incurred. These results are compared to prior year results, which included the poor performances of Brokedown Palace, Anna and the King, Light It Up, Bartok and Titan AE.

At Twentieth Century Fox Television ("TCFTV"), for the twelve months ended June 30, 2001, revenues increased approximately 2% primarily due to higher network revenue from the license fee renegotiations for The Practice and increased license fees for three additional returning series as compared to the prior year. Operating results increased approximately 116% over the prior year primarily due to greater gross profit from The Practice due to the renegotiated license fees, increased gross profit from Buffy the Vampire Slayer due to increased international home video and domestic syndication revenues and savings resulting from the production of fewer new series as compared to the prior year. Partially offsetting the increases were higher development expenses and production expenses from a greater number of pilots in the current year.

Television. For the year ended June 30, 2001, combined revenues from all television-related segments declined slightly to $3,464 million as compared to the corresponding period of the preceding fiscal year of $3,483 million. Operating income decreased by 30% and Operating Income Before Depreciation and Amortization decreased by 22% for the year ended June 30, 2001. Operating results were greatly affected by the negative impact of the weak advertising market and increased programming, broadcasting and news costs at the Television Stations, as well as a $71 million loss at FOX resulting from the short duration and lower ratings of the Major League Baseball ("MLB") post-season divisional playoffs and World Series in October 2000.

For fiscal year 2001, the Television Broadcast Network segment's revenues increased 4% over the prior year primarily related to National Association of Stock Car Auto Racing ("NASCAR") events, which is in its first year of contract, and an increase in National Football League ("NFL") advertising sales resulting from higher pricing. Operating income decreased $94 million to a loss of $65 million and Operating Income Before Depreciation and Amortization decreased $92 million from the prior fiscal year. These losses were primarily driven by the $71 million loss associated with the World Series that was not telecast in the prior year and a ratings shortfall coupled with lower sell-out for the MLB Divisional and Championship play-off series, all in October 2000. This loss was increased by higher NFL program rights costs and higher advertising and promotional costs of off-air media awareness spending for the Fall launch. These decreases were partially offset by lower prime time programming costs due to the replacement of Party of Five and Beverly Hills 90210 with new

less expensive programming. In the current year, FOX prime time delivered a 2.5% adults 18 - 49 ratings increase over the prior year due primarily to the successful launch of series such as Boston Public, Dark Angel and Grounded for Life.

For fiscal year 2001, the Fox Television Stations' revenues decreased to $1,550 million from $1,635 million in the corresponding period of the prior year. This 5% revenue decline primarily relates to the weak advertising market. Also contributing to the decreased revenues were the competition from NBC's broadcast of the Olympics, the delayed Fall launch and lower FOX prime time ratings in the first half of the year. For the twelve months ended June 30, 2001, Fox Television Stations produced operating income and Operating Income Before Depreciation and Amortization of $499 million and $683 million, respectively, decreasing $86 million and $91 million, respectively, versus the prior year. Increases in program amortization for new shows, including Drew Carey and 3rd Rock From The Sun, local broadcast rights amortization for the Boston Red Sox and the Texas Rangers and costs related to the local news launch at KDVR in Denver contributed to the decreases in operating income and Operating Income Before Depreciation and Amortization.

Cable Network Programming. The revenues of the Cable Network Programming segment for the year ended June 30, 2001 as compared to the prior year increased $205 million, operating losses of $59 million improved by $16 million and Operating Income Before Depreciation and Amortization improved by $42 million to $149 million. Revenue increases were due to