

Edgar Filing: Discovery Communications, Inc. - Form 10-Q

Discovery Communications, Inc.  
Form 10-Q  
November 01, 2016

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2016

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-34177

Discovery Communications, Inc.  
(Exact name of Registrant as specified in its charter)

|                                                                   |                                         |
|-------------------------------------------------------------------|-----------------------------------------|
| Delaware                                                          | 35-2333914                              |
| (State or other jurisdiction of<br>incorporation or organization) | (I.R.S. Employer<br>Identification No.) |

|                                                      |            |
|------------------------------------------------------|------------|
| One Discovery Place                                  | 20910      |
| Silver Spring, Maryland                              |            |
| (Address of principal executive offices)             | (Zip Code) |
| (240) 662-2000                                       |            |
| (Registrant's telephone number, including area code) |            |

Not Applicable

(Former name, former address and former fiscal year, if changed since last report.)

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

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes ☒ No ☐

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Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Total number of shares outstanding of each class of the Registrant’s common stock as of October 26, 2016:

Series A Common Stock, par value \$0.01 per share 151,943,509

Series B Common Stock, par value \$0.01 per share 6,512,379

Series C Common Stock, par value \$0.01 per share 234,668,886

DISCOVERY COMMUNICATIONS, INC.  
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## PART I. FINANCIAL INFORMATION

## ITEM 1. Unaudited Financial Statements.

## DISCOVERY COMMUNICATIONS, INC.

## CONSOLIDATED BALANCE SHEETS

(unaudited; in millions, except par value)

|                                                                                                       | September 30,<br>2016 | December 31,<br>2015 |
|-------------------------------------------------------------------------------------------------------|-----------------------|----------------------|
| <b>ASSETS</b>                                                                                         |                       |                      |
| Current assets:                                                                                       |                       |                      |
| Cash and cash equivalents                                                                             | \$ 224                | \$ 390               |
| Receivables, net                                                                                      | 1,545                 | 1,479                |
| Content rights, net                                                                                   | 350                   | 313                  |
| Deferred income taxes                                                                                 | 110                   | 68                   |
| Prepaid expenses and other current assets                                                             | 454                   | 346                  |
| Total current assets                                                                                  | 2,683                 | 2,596                |
| Noncurrent content rights, net                                                                        | 2,117                 | 2,030                |
| Property and equipment, net                                                                           | 464                   | 488                  |
| Goodwill                                                                                              | 8,179                 | 8,164                |
| Intangible assets, net                                                                                | 1,621                 | 1,730                |
| Equity method investments                                                                             | 515                   | 567                  |
| Other noncurrent assets                                                                               | 271                   | 289                  |
| Total assets                                                                                          | \$ 15,850             | \$ 15,864            |
| <b>LIABILITIES AND EQUITY</b>                                                                         |                       |                      |
| Current liabilities:                                                                                  |                       |                      |
| Accounts payable                                                                                      | \$ 202                | \$ 282               |
| Accrued liabilities                                                                                   | 1,045                 | 988                  |
| Deferred revenues                                                                                     | 180                   | 190                  |
| Current portion of debt                                                                               | 95                    | 119                  |
| Total current liabilities                                                                             | 1,522                 | 1,579                |
| Noncurrent portion of debt                                                                            | 7,901                 | 7,616                |
| Deferred income taxes                                                                                 | 536                   | 556                  |
| Other noncurrent liabilities                                                                          | 440                   | 421                  |
| Total liabilities                                                                                     | 10,399                | 10,172               |
| Commitments and contingencies (Note 15)                                                               |                       |                      |
| Redeemable noncontrolling interests                                                                   | 247                   | 241                  |
| Equity:                                                                                               |                       |                      |
| Discovery Communications, Inc. stockholders' equity:                                                  |                       |                      |
| Series A convertible preferred stock: \$0.01 par value; 75 shares authorized; 71 shares issued        | 1                     | 1                    |
| Series C convertible preferred stock: \$0.01 par value; 75 shares authorized; 31 and 38 shares issued | 1                     | 1                    |
| Series A common stock: \$0.01 par value; 1,700 shares authorized; 155 and 153 shares issued           | 1                     | 1                    |
| Series B convertible common stock: \$0.01 par value; 100 shares authorized; 7 shares issued           | —                     | —                    |
| Series C common stock: \$0.01 par value; 2,000 shares authorized; 379 and 376 shares issued           | 4                     | 4                    |
| Additional paid-in capital                                                                            | 7,016                 | 7,021                |
| Treasury stock, at cost                                                                               | (6,214)               | (5,461)              |
| Retained earnings                                                                                     | 5,038                 | 4,517                |

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|                                      |           |           |   |
|--------------------------------------|-----------|-----------|---|
| Accumulated other comprehensive loss | (643      | ) (633    | ) |
| Total equity                         | 5,204     | 5,451     |   |
| Total liabilities and equity         | \$ 15,850 | \$ 15,864 |   |

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

DISCOVERY COMMUNICATIONS, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(unaudited; in millions, except per share amounts)

|                                                                                                         | Three Months<br>Ended<br>September 30,<br>2016 |        | Nine Months<br>Ended<br>September 30,<br>2016 |         |
|---------------------------------------------------------------------------------------------------------|------------------------------------------------|--------|-----------------------------------------------|---------|
|                                                                                                         | 2015                                           |        | 2015                                          |         |
| Revenues:                                                                                               |                                                |        |                                               |         |
| Distribution                                                                                            | \$806                                          | \$776  | \$2,420                                       | \$2,309 |
| Advertising                                                                                             | 670                                            | 699    | 2,170                                         | 2,200   |
| Other                                                                                                   | 80                                             | 82     | 235                                           | 239     |
| Total revenues                                                                                          | 1,556                                          | 1,557  | 4,825                                         | 4,748   |
| Costs and expenses:                                                                                     |                                                |        |                                               |         |
| Costs of revenues, excluding depreciation and amortization                                              | 592                                            | 574    | 1,787                                         | 1,703   |
| Selling, general and administrative                                                                     | 419                                            | 394    | 1,227                                         | 1,224   |
| Depreciation and amortization                                                                           | 80                                             | 80     | 239                                           | 243     |
| Restructuring and other charges                                                                         | 7                                              | 4      | 52                                            | 37      |
| Gain on disposition                                                                                     | —                                              | —      | (13)                                          | (3)     |
| Total costs and expenses                                                                                | 1,098                                          | 1,052  | 3,292                                         | 3,204   |
| Operating income                                                                                        | 458                                            | 505    | 1,533                                         | 1,544   |
| Interest expense                                                                                        | (91)                                           | (82)   | (267)                                         | (248)   |
| Income (loss) from equity investees, net                                                                | 3                                              | (10)   | (28)                                          | (2)     |
| Other expense, net                                                                                      | (49)                                           | —      | (27)                                          | (78)    |
| Income before income taxes                                                                              | 321                                            | 413    | 1,211                                         | 1,216   |
| Income tax expense                                                                                      | (96)                                           | (130)  | (302)                                         | (394)   |
| Net income                                                                                              | 225                                            | 283    | 909                                           | 822     |
| Net income attributable to noncontrolling interests                                                     | —                                              | —      | (1)                                           | —       |
| Net income attributable to redeemable noncontrolling interests                                          | (6)                                            | (4)    | (18)                                          | (7)     |
| Net income available to Discovery Communications, Inc.                                                  | \$219                                          | \$279  | \$890                                         | \$815   |
| Net income per share available to Discovery Communications, Inc. Series A, B and C common stockholders: |                                                |        |                                               |         |
| Basic                                                                                                   | \$0.37                                         | \$0.43 | \$1.45                                        | \$1.25  |
| Diluted                                                                                                 | \$0.36                                         | \$0.43 | \$1.44                                        | \$1.24  |
| Weighted average shares outstanding:                                                                    |                                                |        |                                               |         |
| Basic                                                                                                   | 395                                            | 432    | 404                                           | 434     |
| Diluted                                                                                                 | 602                                            | 653    | 615                                           | 658     |

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

DISCOVERY COMMUNICATIONS, INC.  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(unaudited; in millions)

|                                                                                 | Three<br>Months<br>Ended<br>September<br>30, |       | Nine Months<br>Ended<br>September<br>30, |        |
|---------------------------------------------------------------------------------|----------------------------------------------|-------|------------------------------------------|--------|
|                                                                                 | 2016                                         | 2015  | 2016                                     | 2015   |
| Net income                                                                      | \$225                                        | \$283 | \$909                                    | \$822  |
| Other comprehensive (loss) income, net of tax:                                  |                                              |       |                                          |        |
| Currency translation adjustments                                                | (16 )                                        | (46 ) | (23 )                                    | (162 ) |
| Market value adjustments                                                        | 50                                           | —     | 25                                       | —      |
| Derivative adjustments                                                          | 3                                            | 1     | (9 )                                     | (1 )   |
| Comprehensive income                                                            | 262                                          | 238   | 902                                      | 659    |
| Comprehensive income attributable to noncontrolling interests                   | —                                            | —     | (1 )                                     | —      |
| Comprehensive (income) loss attributable to redeemable noncontrolling interests | (6 )                                         | (7 )  | (21 )                                    | 16     |
| Comprehensive income attributable to Discovery Communications, Inc.             | \$256                                        | \$231 | \$880                                    | \$675  |

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

DISCOVERY COMMUNICATIONS, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(unaudited; in millions)

|                                                                               | Nine Months<br>Ended<br>September<br>30,<br>2016 2015 |          |
|-------------------------------------------------------------------------------|-------------------------------------------------------|----------|
| Operating Activities                                                          |                                                       |          |
| Net income                                                                    | \$909                                                 | \$822    |
| Adjustments to reconcile net income to cash provided by operating activities: |                                                       |          |
| Equity-based compensation expense                                             | 49                                                    | 16       |
| Depreciation and amortization                                                 | 239                                                   | 243      |
| Content amortization and impairment expense                                   | 1,293                                                 | 1,243    |
| Gain on disposition                                                           | (13 )                                                 | (3 )     |
| Remeasurement gain on previously held equity interest                         | —                                                     | (2 )     |
| Equity in losses (earnings) of investee companies, net of cash distributions  | 33                                                    | 9        |
| Deferred income taxes                                                         | (55 )                                                 | 4        |
| Realized loss from derivative instruments                                     | 3                                                     | 11       |
| Other-than-temporary impairment of AFS investments                            | 62                                                    | —        |
| Other, net                                                                    | 45                                                    | 29       |
| Changes in operating assets and liabilities, net of business combinations:    |                                                       |          |
| Receivables, net                                                              | (48 )                                                 | (133 )   |
| Content rights, net                                                           | (1,464 )                                              | (1,386 ) |
| Accounts payable and accrued liabilities                                      | (44 )                                                 | (14 )    |
| Equity-based compensation liabilities                                         | (5 )                                                  | (25 )    |
| Income taxes receivable and prepaid income taxes                              | (50 )                                                 | (136 )   |
| Other, net                                                                    | (127 )                                                | (26 )    |
| Cash provided by operating activities                                         | 827                                                   | 652      |
| Investing Activities                                                          |                                                       |          |
| Investments in equity method investees, net                                   | (67 )                                                 | (26 )    |
| Purchases of property and equipment                                           | (69 )                                                 | (76 )    |
| Distributions from equity method investees                                    | 69                                                    | 67       |
| Proceeds from disposition, net of cash disposed                               | 19                                                    | 61       |
| Investments in cost method investments                                        | (4 )                                                  | (16 )    |
| Payments for derivative instruments, net                                      | —                                                     | (11 )    |
| Business acquisitions, net of cash acquired                                   | —                                                     | (24 )    |
| Other investing activities, net                                               | (2 )                                                  | (1 )     |
| Cash used in investing activities                                             | (54 )                                                 | (26 )    |
| Financing Activities                                                          |                                                       |          |
| Commercial paper repayments, net                                              | (23 )                                                 | (140 )   |
| Borrowings under revolving credit facility                                    | 445                                                   | 222      |
| Principal repayments of revolving credit facility                             | (672 )                                                | (179 )   |
| Borrowings from debt, net of discount                                         | 498                                                   | 936      |
| Principal repayments of debt                                                  | —                                                     | (849 )   |
| Principal repayments of capital lease obligations                             | (23 )                                                 | (22 )    |
| Repurchases of stock                                                          | (1,124 )                                              | (576 )   |
| Prepayments for common stock repurchase contracts                             | (71 )                                                 | —        |
| Distributions to redeemable noncontrolling interests                          | (17 )                                                 | (38 )    |

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|                                                              |        |        |
|--------------------------------------------------------------|--------|--------|
| Equity-based plan proceeds (payments), net                   | 32     | (9 )   |
| Hedge of borrowings from debt instruments                    | —      | (29 )  |
| Other financing activities, net                              | (13 )  | (15 )  |
| Cash used in financing activities                            | (968 ) | (699 ) |
| Effect of exchange rate changes on cash and cash equivalents | 29     | (32 )  |
| Net change in cash and cash equivalents                      | (166 ) | (105 ) |
| Cash and cash equivalents, beginning of period               | 390    | 367    |
| Cash and cash equivalents, end of period                     | \$224  | \$262  |

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

DISCOVERY COMMUNICATIONS, INC.  
CONSOLIDATED STATEMENT OF EQUITY  
(unaudited; in millions)

|                                                                             | Preferred<br>Stock<br>Shares | Par<br>Value | Common<br>Stock<br>Shares | Par<br>Value | Additional<br>Paid-In<br>Capital | Treasury<br>Stock | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Discovery<br>Communications<br>Inventive<br>Stockholders'<br>Equity | Noncontrolling<br>Interests | Following<br>Equity |
|-----------------------------------------------------------------------------|------------------------------|--------------|---------------------------|--------------|----------------------------------|-------------------|----------------------|-----------------------------------------------|---------------------------------------------------------------------|-----------------------------|---------------------|
| December 31, 2015                                                           | 109                          | \$ 2         | 536                       | \$ 5         | \$ 7,021                         | \$(5,461)         | \$ 4,517             | \$ (633 )                                     | \$ 5,451                                                            | \$ —                        | \$ 5,451            |
| Net income available to<br>Discovery<br>Communications, Inc.                | —                            | —            | —                         | —            | —                                | —                 | 890                  | —                                             | 890                                                                 | 1                           | 891                 |
| Other comprehensive loss                                                    | —                            | —            | —                         | —            | —                                | —                 | —                    | (10 )                                         | (10 )                                                               | —                           | (10 )               |
| Repurchases of stock                                                        | (7 )                         | —            | —                         | —            | —                                | (753 )            | (371 )               | —                                             | (1,124 )                                                            | —                           | (1,124 )            |
| Prepayments for common<br>stock repurchase contracts                        | —                            | —            | —                         | —            | (71 )                            | —                 | —                    | —                                             | (71 )                                                               | —                           | (71 )               |
| Equity-based<br>compensation                                                | —                            | —            | —                         | —            | 25                               | —                 | —                    | —                                             | 25                                                                  | —                           | 25                  |
| Excess tax benefits from<br>equity-based<br>compensation                    | —                            | —            | —                         | —            | 7                                | —                 | —                    | —                                             | 7                                                                   | —                           | 7                   |
| Tax settlements<br>associated with<br>equity-based<br>compensation          | —                            | —            | —                         | —            | (11 )                            | —                 | —                    | —                                             | (11 )                                                               | —                           | (11 )               |
| Issuance of common stock<br>in connection with<br>equity-based plans        | —                            | —            | 4                         | —            | 45                               | —                 | —                    | —                                             | 45                                                                  | —                           | 45                  |
| Redeemable<br>noncontrolling interest<br>adjustments to redemption<br>value | —                            | —            | —                         | —            | —                                | —                 | 2                    | —                                             | 2                                                                   | —                           | 2                   |
| Cash distributions to<br>noncontrolling interests                           | —                            | —            | —                         | —            | —                                | —                 | —                    | —                                             | —                                                                   | (1 )                        | (1 )                |
| Share conversion                                                            | —                            | —            | 1                         | —            | —                                | —                 | —                    | —                                             | —                                                                   | —                           | —                   |
| September 30, 2016                                                          | 102                          | \$ 2         | 541                       | \$ 5         | \$ 7,016                         | \$(6,214)         | \$ 5,038             | \$ (643 )                                     | \$ 5,204                                                            | \$ —                        | \$ 5,204            |

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

DISCOVERY COMMUNICATIONS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

NOTE 1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Description of Business

Discovery Communications, Inc. ("Discovery" or the "Company") is a global media company that provides content across multiple distribution platforms, including pay-TV, free-to-air ("FTA") and broadcast television networks, websites, digital distribution arrangements and content licensing agreements. The Company also develops and sells curriculum-based education products and services and operates production studios. The Company classifies its operations in two reportable segments: U.S. Networks, consisting principally of domestic television networks and websites, and International Networks, consisting principally of international television networks and websites; and two combined operating segments referred to as Education and Other, consisting principally of curriculum-based product and service offerings and production studios. Financial information for Discovery's reportable segments is discussed in Note 16.

Basis of Presentation

The consolidated financial statements include the accounts of Discovery and its majority-owned subsidiaries in which a controlling interest is maintained. For each non-wholly owned subsidiary, the Company evaluates its ownership and other interests to determine whether it should consolidate the entity or account for its ownership interest as an investment. As part of its evaluation, the Company makes judgments in determining whether the entity is a variable interest entity ("VIE") and, if so, whether it is the primary beneficiary of the VIE and is thus required to consolidate the entity. (See Note 3.) Inter-company accounts and transactions between consolidated entities have been eliminated in consolidation.

Unaudited Interim Financial Statements

These consolidated financial statements are unaudited; however, in the opinion of management, they reflect all adjustments consisting only of normal recurring adjustments necessary to state fairly the financial position, results of operations and cash flows for the periods presented in conformity with U.S. generally accepted accounting principles ("GAAP") applicable to interim periods. The results of operations for the interim periods presented are not necessarily indicative of results for the full year or future periods. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in Discovery's Annual Report on Form 10-K for the year-ended December 31, 2015 (the "2015 Form 10-K").

Use of Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates, judgments and assumptions that affect the amounts and disclosures reported in the consolidated financial statements and accompanying notes. Management continually re-evaluates its estimates, judgments and assumptions, and management's evaluation could change. These estimates are sometimes complex, sensitive to changes in assumptions and require fair value determinations using Level 3 fair value measurements. Actual results may differ materially from those estimates.

Estimates inherent in the preparation of the consolidated financial statements include accounting for asset impairments, revenue recognition, allowances for doubtful accounts, content rights, depreciation and amortization, business combinations, equity-based compensation, income taxes, other financial instruments, contingencies and the determination of whether the Company is the primary beneficiary of entities in which it holds variable interests.

Accounting and Reporting Pronouncements Adopted

Business Consolidation

In February 2015, the Financial Accounting Standards Board ("FASB") issued guidance that amends the analysis that a reporting entity performs to determine whether it should consolidate certain legal entities. The changes in this guidance include how related parties and de facto agents are considered in the primary beneficiary determination and the analysis for determining whether a fee paid to a decision maker or service provider is a variable interest. In

accordance with the adoption requirement, the Company adopted this guidance effective January 1, 2016, and there was no effect on the consolidated financial statements.

**Business Combinations**

In September 2015, the FASB issued new guidance on adjustments to provisional amounts recognized in a business combination, which are currently recognized on a retrospective basis. Under the new requirements, adjustments will be recognized

DISCOVERY COMMUNICATIONS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

in the reporting period in which the adjustments are determined. The effects of changes in depreciation, amortization, or other income arising from changes to the provisional amounts, if any, are included in earnings of the reporting period in which the adjustments to the provisional amounts are determined. An entity is also required to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. The Company adopted this guidance effective January 1, 2016, and there was no effect on the consolidated financial statements.

Accounting for Fees Paid in a Cloud Computing Arrangement

In April 2015, the FASB issued explicit guidance on the recognition of fees paid by a customer for cloud computing arrangements as either the acquisition of a software license or a service contract. The Company adopted this guidance effective October 1, 2015, and there was no material effect on the consolidated financial statements.

Presentation of Debt Issuance Costs

In April 2015, the FASB issued guidance requiring all debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the debt instead of being presented as an asset on the balance sheet. The Company retrospectively adopted the new guidance on April 1, 2015 and reclassified its unamortized debt issuance costs related to the Company's debt from other noncurrent assets to noncurrent portion of debt on the consolidated balance sheet as of December 31, 2014.

Accounting and Reporting Pronouncements Not Yet Adopted

Income Taxes

In October 2016, the FASB issued guidance that simplifies the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. The new guidance includes requirements to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs, and therefore eliminates the exception for an intra-entity transfer of an asset other than inventory. The new standard is effective for reporting periods beginning after December 15, 2017, and can be adopted early in any interim period, with any adjustments applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The Company is currently evaluating the impact that the pronouncement will have on the consolidated financial statements.

Share-Based Payment

In March 2016, the FASB issued guidance that simplifies how share-based payments are accounted for and presented in the financial statements. The new guidance includes requirements to record all of the tax effects related to share-based payments at settlement through the income statement, allows for tax withholdings up to maximum statutory rates before precluding equity accounting, and allows the Company to make an accounting policy election for the impact of forfeitures on the recognition of expense. The new standard is effective for reporting periods beginning after December 15, 2016 and can be adopted early in any interim period, with any adjustments reflected as of the beginning of the fiscal year of adoption in retained earnings. The Company is currently evaluating the impact that the pronouncement will have on the consolidated financial statements.

Leases

In February 2016, the FASB issued guidance on leases that will require lessees to recognize almost all of their leases on the balance sheet by recording a right-of-use asset and liability. The new standard will be effective for reporting periods beginning after December 15, 2018, and requires application of the new accounting guidance at the beginning of the earliest comparative period presented in the year of adoption. The Company is currently evaluating the impact that the pronouncement will have on the consolidated financial statements.

Recognition and Measurement of Financial Instruments

In January 2016, the FASB issued guidance regarding the classification and measurement of financial instruments. The standard requires equity securities, including available-for-sale ("AFS") securities, to be measured at fair value

with changes in the fair value recognized through net income, superseding the guidance permitting entities to record gains and losses on equity securities with readily determinable fair values in accumulated other comprehensive income. Investments accounted for under the equity method of accounting or that result in consolidation are not included within the scope of this update. The new standard will affect the Company's accounting for AFS securities for reporting periods beginning after December 15, 2017.

DISCOVERY COMMUNICATIONS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

Balance Sheet Classification of Deferred Taxes

In November 2015, the FASB issued guidance to simplify the presentation of deferred income taxes, which removes the requirement to separate deferred tax liabilities and assets into current and noncurrent amounts and instead requires all such amounts be classified as noncurrent on the Company's consolidated balance sheets. The new requirement will be effective for financial statements issued for annual periods beginning after December 15, 2016, and can be adopted on either a retrospective or prospective basis. The Company will record a balance sheet reclassification adjustment for the impact that the pronouncement will have on the consolidated financial statements. The Company will retrospectively adopt the pronouncement.

Presentation of Financial Statements - Going Concern

In August 2014, the FASB issued guidance requiring the Company to perform interim and annual assessments regarding conditions or events that raise substantial doubt about the Company's ability to continue as a going concern and to provide related disclosures, if applicable. The new standard is effective for reporting periods ending after December 15, 2016, with early adoption permitted. The adoption of this standard is not expected to have a material impact on the Company's disclosures in the consolidated financial statements.

Revenue from Contracts with Customers

In May 2014, the FASB issued an accounting pronouncement related to revenue recognition, which applies a single, comprehensive revenue recognition model for all contracts with customers. This standard, as amended, contains principles with respect to the measurement and timing of recognition of revenue. The Company will recognize revenue to reflect the transfer of goods or services to customers at an amount that it expects to be entitled to receive in exchange for those goods or services. The new standard is effective for annual reporting periods beginning after December 15, 2017, with early adoption permitted for annual reporting periods beginning after December 15, 2016. The Company is required to apply the new revenue standard beginning in the first interim period within the year of adoption. The Company is currently evaluating the impact that the pronouncement will have on the consolidated financial statements.

Concentrations Risk

Customers

The Company has long-term contracts with distributors around the world. For the U.S. Networks segment, more than 90% of distribution revenue comes from the Company's top 10 distributors in the U.S. For the International Networks segment, approximately 46% of distribution revenue comes from the Company's top 10 distributors outside of the U.S. Agreements in place with the major cable and satellite operators in the U.S. expire at various times from 2016 through 2021. Although the Company seeks to renew its agreements with its distributors prior to expiration of a contract, a delay in securing a renewal that results in a service disruption, a failure to secure a renewal or a renewal on less favorable terms may have a material adverse effect on the Company's financial condition and results of operations. Not only could the Company experience a reduction in distribution revenue, but it could also experience a reduction in advertising revenue, as viewership is impacted by affiliate subscriber levels.

No individual customer accounted for more than 10% of total consolidated revenues for the three and nine months ended September 30, 2016 or 2015. As of September 30, 2016 and December 31, 2015, the Company's trade receivables did not represent a significant concentration of credit risk as the customers and markets in which the Company operates are varied and dispersed across many geographic areas.

Financial Institutions

Cash and cash equivalents are maintained with several financial institutions. The Company has deposits held with banks that exceed the amount of insurance provided on such deposits. Generally, these deposits may be redeemed upon demand and are maintained with financial institutions of reputable credit and, therefore, bear minimal credit risk. Additionally, the Company has cash and cash equivalents held by its foreign subsidiaries that would result in U.S. tax consequences should the Company decide it needs to repatriate these funds to the U.S.

#### Lender Counterparties

There is a risk that the counterparties associated with the Company's revolving credit facility will not be available to fund as obligated under the terms of the facility and that the Company may, at the time of such unavailability to fund, have limited or no access to the commercial paper market. If funding under the revolving credit facility is unavailable, the Company may have to acquire a replacement credit facility from different counterparties at a higher cost or may be unable to find a suitable replacement. Typically, the Company seeks to manage such risks from its revolving credit facility by contracting with experienced large financial institutions and monitoring the credit quality of its lenders. As of September 30, 2016, the Company did not anticipate nonperformance by any of its counterparties.

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### Counterparty Credit Risk

The Company is exposed to the risk that the counterparties to outstanding derivative financial instruments will default on their obligations. The Company manages these credit risks through the evaluation and monitoring of the creditworthiness of, and concentration of risk with, the respective counterparties. In this regard, credit risk associated with outstanding derivative financial instruments is spread across a relatively broad counterparty base of banks and financial institutions. In connection with the Company's hedge of certain investments classified as available-for-sale securities, the Company has pledged shares as collateral to the derivative counterparty. (See Note 3.) The Company also has a limited number of arrangements where collateral is required to be posted in the instance that certain fair value thresholds are exceeded. As of September 30, 2016, no collateral has been posted by either party under these arrangements. As of September 30, 2016, our exposure to counterparty credit risk included derivative assets with an aggregate fair value of \$92 million.

### NOTE 2. ACQUISITIONS AND DISPOSITIONS

#### Acquisitions

##### Eurosport France

On December 21, 2012, the Company acquired a 20% equity method investment in Eurosport France. On March 31, 2015, the Company acquired an additional 31% interest in Eurosport France for €36 million (\$38 million). This transaction gave the Company a 51% controlling stake in Eurosport France. The Company recognized a gain of \$2 million during the three months ended March 31, 2015, to account for the difference between the carrying value and the fair value of the previously held 20% equity method investment in Eurosport France as a component of other expense, net in the Company's consolidated statements of operations. (See Note 13.) On October 1, 2015, the Company acquired the remaining 49% of Eurosport France. (See Note 8.)

Eurosport France is part of Eurosport, a leading pan-European sports media platform. The flagship Eurosport network focuses on regionally popular sports, such as tennis, skiing, cycling and motor sports. Eurosport's brands and platforms also include Eurosport HD (high definition simulcast), Eurosport 2, Eurosport 2 HD and Eurosportnews. The acquisition is intended to increase the growth of Eurosport and enhance the Company's pay-TV offerings in Europe. The Company used a discounted cash flow ("DCF") analysis, which represents a Level 3 fair value measurement, to assess certain components of the Eurosport France purchase price allocation. The fair value of the assets acquired, liabilities assumed, noncontrolling interest recognized and the remeasurement gain recorded on the previously held equity interest is presented in the table below (in millions).

|                                                       | March 31,<br>2015 |
|-------------------------------------------------------|-------------------|
| Goodwill                                              | \$ 69             |
| Intangible assets                                     | 40                |
| Other assets acquired                                 | 25                |
| Cash                                                  | 35                |
| Removal of TF1 put right                              | 2                 |
| Currency translation adjustment                       | (6 )              |
| Remeasurement gain on previously held equity interest | (2 )              |
| Liabilities assumed                                   | (30 )             |
| Deferred tax liabilities                              | (14 )             |
| Redeemable noncontrolling interest (Note 8)           | (60 )             |
| Carrying value of previously held equity interest     | (21 )             |
| Net assets acquired                                   | \$ 38             |

The goodwill reflects the workforce and synergies expected from increased pan-European market penetration as the operations of Eurosport and the Company are combined. The goodwill recorded as part of this acquisition is included

in the International Networks reportable segment and is not amortizable for tax purposes. Intangible assets primarily consist of distribution and advertising customer relationships, advertiser backlog and trademarks with a weighted average estimated useful life of 10 years.

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Other

In the year ended December 31, 2015, the Company acquired several other unrelated businesses for total cash and contingent consideration of \$91 million, net of cash acquired. Total consideration, net of cash acquired, included contingent consideration of \$13 million as of December 31, 2015, of which \$1 million was paid during the nine months ended September 30, 2016. The Company recorded \$54 million and \$43 million of goodwill and intangible assets, respectively, in connection with these acquisitions. The acquisitions included FTA networks in Italy and Turkey, cable networks in Denmark and a pay-TV sports channel in Asia. The goodwill reflects the synergies and regional market penetration from combining the operations of these acquisitions with the Company's operations.

Impact of Business Combinations

The operations of each of the business combinations in 2015 discussed above were included in the consolidated financial statements as of each of their respective acquisition dates. The following table presents their revenue and earnings as reported within the consolidated financial statements for the current period (in millions).

|  | Three<br>months<br>ended<br>September<br>30, 2016 | Nine<br>months<br>ended<br>September<br>30, 2016 |
|--|---------------------------------------------------|--------------------------------------------------|
|--|---------------------------------------------------|--------------------------------------------------|

Revenues:

|                |       |        |
|----------------|-------|--------|
| Distribution   | \$ 21 | \$ 64  |
| Advertising    | 12    | 42     |
| Other          | 1     | 3      |
| Total revenues | \$ 34 | \$ 109 |

| Net income | \$ 6                                              | \$ 21                                            |
|------------|---------------------------------------------------|--------------------------------------------------|
|            | Three<br>months<br>ended<br>September<br>30, 2015 | Nine<br>months<br>ended<br>September<br>30, 2015 |

Revenues:

|                |       |       |
|----------------|-------|-------|
| Distribution   | \$ 21 | \$ 39 |
| Advertising    | 8     | 11    |
| Other          | —     | —     |
| Total revenues | \$ 29 | \$ 50 |

|            |      |      |
|------------|------|------|
| Net income | \$ 1 | \$ 1 |
|------------|------|------|

Dispositions

Russia

On October 7, 2015, Discovery recorded a loss of \$5 million upon deconsolidation of its Russian business following its contribution to a joint venture (the "New Russian Business") with a Russian media company, National Media Group ("NMG"). The New Russian Business was established to comply with changes in Russian legislation that limit foreign ownership of media companies in Russia. No cash consideration was exchanged in the transaction. NMG contributed an FTA license which enables advertising for the New Russian Business. As part of the transaction, Discovery obtained a 20% ownership interest in the New Russian Business, which is accounted for under the equity method of

accounting. The loss on contribution of the Russian business included \$15 million of goodwill allocated to the transaction based on the relative fair values of the Russian business disposed of and the portion of the reporting unit that was retained. Although Discovery no longer consolidates the Russian business, Discovery earns revenue by providing content and brands to the New Russian Business under long-term licensing arrangements (Note 14). The Russian business was included in the International Networks reportable segment; the licensing arrangements are reported as distribution revenue in the International Networks reportable segment (See Note 16).

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#### Radio

On June 30, 2015, Discovery sold its radio business in Northern Europe to Bauer Media Group ("Bauer") for total consideration, net of cash disposed, of €72 million (\$80 million), which included €54 million (\$61 million) in cash and €18 million (\$19 million) of contingent consideration. The cumulative gain on the disposal is \$1 million and includes \$26 million of goodwill allocated to the transaction based on the relative fair values of the radio business disposed of and the portion of the reporting unit that was retained. Upon sale, the Company recorded a \$3 million gain including estimated contingent consideration as disclosed for the nine months ended September 30, 2015. As of December 31, 2015, the Company revised its estimated contingent consideration resulting in a \$12 million loss. Based on the final resolution and receipt of contingent consideration payable, Discovery recorded a pre-tax gain of \$13 million for the nine months ended September 30, 2016.

The Company determined that the disposal did not meet the definition of a discontinued operation because it does not represent a strategic shift that has a significant impact on the Company's operations and consolidated financial results. The Company's radio business had no impact on income before income taxes for the nine months ended September 30, 2015. The Company's radio businesses were part of the International Networks reportable segment.

#### Discovery Digital Networks

On October 13, 2016, the Company announced a plan to contribute \$100 million and its digital network Seeker and production studio SourceFed in exchange for a 39% minority interest in a new holding company, Group Nine Media. Group Nine Media includes digital companies Thrillist Media Group, Now This Media, and The Dodo. The businesses contributed by Discovery have a net asset balance of approximately \$30 million, primarily comprised of goodwill. The Company expects to record a gain upon deconsolidation of these businesses.

#### NOTE 3. INVESTMENTS

The Company's investments consisted of the following (in millions).

| Category                       | Balance Sheet Location                    | September 30, 2016 | December 31, 2015 |
|--------------------------------|-------------------------------------------|--------------------|-------------------|
| Trading securities:            |                                           |                    |                   |
| Mutual funds                   | Prepaid expenses and other current assets | \$ 161             | \$ 149            |
| Equity method investments      | Equity method investments                 | 515                | 567               |
| Available-for-sale securities: |                                           |                    |                   |
| Common stock                   | Other noncurrent assets                   | 50                 | 81                |
| Common stock - pledged         | Other noncurrent assets                   | 50                 | 81                |
| Cost method investments        | Other noncurrent assets                   | 48                 | 43                |
| Total investments              |                                           | \$ 824             | \$ 921            |

#### Trading Securities

Trading securities include investments in mutual funds held in a separate trust which are owned as part of the Company's supplemental retirement plan. (See Note 4.)

#### Equity Method Investments

In the normal course of business, the Company makes investments that support its underlying business strategy and enable it to enter new markets and develop programming. All equity method investees are privately owned. The carrying values of the Company's equity method investments are consistent with its ownership in the underlying net assets of the investees, except for Oprah Winfrey Network ("OWN"), because the Company has recorded losses in excess of its ownership interest. Certain of the Company's equity method investments are VIEs, for which the Company is not the primary beneficiary. As of September 30, 2016, the Company's estimated risk of loss for all its VIEs including the investment carrying values, unfunded contractual commitments, and guarantees made on behalf of VIEs was approximately \$380 million. The Company's estimated risk of loss excludes the non-contractual future funding of VIEs. The aggregate carrying values of these VIE investments were \$374 million and \$423 million as of

September 30, 2016 and December 31, 2015, respectively. The Company recognized its portion of net income generated by VIEs of \$10 million and \$21 million for the three months ended September 30, 2016 and 2015, respectively, and \$13 million and \$31 million for the nine months ended September 30, 2016 and 2015, respectively.

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OWN

OWN is a pay-TV network and website that provides adult lifestyle content, which is focused on self-discovery, self-improvement and entertainment. Since the initial equity was not sufficient to fund OWN's activities without additional subordinated financial support in the form of a note receivable held by the Company, OWN is a VIE. While the Company and Harpo, Inc. ("Harpo") are partners who share equally in voting control, power is not shared because Harpo holds operational rights related to programming and marketing, as well as selection and retention of key management personnel, that significantly impact OWN's economic performance. Accordingly, the Company has determined that it is not the primary beneficiary of OWN and accounts for its investment in OWN using the equity method. However, the Company provides OWN content licenses and services, such as distribution, sales and administrative support, for a fee and has provided OWN funding. (See Note 14.)

The carrying value of the Company's investment in OWN of \$317 million and \$373 million as of September 30, 2016 and December 31, 2015, respectively, includes the Company's note receivable and accumulated investment losses.

The Company's combined advances to and note receivable from OWN, including accrued interest, were \$326 million and \$384 million as of September 30, 2016 and December 31, 2015, respectively. On April 30, 2015, Oprah Winfrey agreed to extend her exclusivity agreement with OWN and the note receivable agreement was modified to reduce its interest rate, compounded annually, from 7.5% to 5.0%, retroactive to January 1, 2014. During the nine months ended September 30, 2016, the Company received net repayments of \$71 million from OWN and accrued interest on the note receivable of \$13 million.

The note receivable is secured by the net assets of OWN. While the Company has no further funding commitments, the Company will provide additional funding to OWN, if necessary, and expects to recoup amounts funded. There can be no event of default on the borrowing until 2023. However, borrowings are scheduled for repayment four years after the borrowing date to the extent that OWN has excess cash to repay the borrowings then due. Following such repayment, OWN's subsequent cash distributions will be shared equally between the Company and Harpo.

In accordance with the venture agreement, losses generated by OWN are generally allocated to both investors based on their proportionate ownership interests. However, the Company has recorded its portion of OWN's losses based upon accounting rules for equity method investments. Prior to the contribution of the Discovery Health network to OWN at its launch, the Company had recognized \$104 million, or 100%, of OWN's net losses. During the three months ended March 31, 2012, accumulated operating losses at OWN exceeded the equity contributed to OWN, and Discovery began again to record 100% of OWN's net losses. Although OWN has become profitable, the Company will record 100% of any net losses to the extent they occur resulting from OWN's operations as long as Discovery has provided all funding to OWN and OWN's accumulated losses continue to exceed the equity contributed. All of OWN's net income has been and will continue to be recorded by the Company until the Company recovers losses absorbed in excess of the Company's equity ownership interest. The Company monitors the financial results of OWN along with other relevant business information to assess the recoverability of the OWN note receivable. There has been no impairment of the OWN note receivable.

Based on the joint venture agreement, as amended on April 1, 2016, Harpo has the right to conditionally require the Company to purchase all or part of Harpo's interest in OWN at fair market value up to a maximum put amount during 90-day windows beginning on April 1, 2017 and every two and a half years commencing July 1, 2018 through January 1, 2026. The maximum put amount ranges from \$100 million on the first put exercise date up to a cumulative cap of \$400 million on the fifth put exercise date. The Company has not recorded amounts for the put right because the fair value of this put right was zero as of September 30, 2016 and December 31, 2015.

Other Equity Method Investments

At September 30, 2016 and December 31, 2015, the Company's other equity method investments included the New Russian Business, All3Media and certain joint ventures in Canada. In addition on June 24, 2016, the Company acquired a 27.5% interest in Mega TV, a FTA channel in Chile owned by Bethia Comunicaciones, for \$53 million.

The Company acquired other equity method investments and made additional contributions to existing equity method investments totaling \$14 million during the nine months ended September 30, 2016.

Available-for-Sale Securities ("AFS")

On November 12, 2015, the Company acquired 5 million shares, or approximately 3%, of Lions Gate Entertainment Corp. ("Lionsgate"), an entertainment company, for \$195 million. As the shares have a readily determinable fair value and the Company has the intent to retain the investment, the shares are classified as AFS securities.

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The accumulated amounts associated with the components of the Company's AFS securities, which are included in other non-current assets, are summarized in the table below (in millions).

|                                                              | September<br>30, 2016 | December<br>31, 2015 |
|--------------------------------------------------------------|-----------------------|----------------------|
| Cost                                                         | \$ 195                | \$ 195               |
| Other-than-temporary impairment of AFS securities            | (62 )                 | —                    |
| Adjusted Cost Basis                                          | 133                   | 195                  |
| Unrealized losses for changes in fair value of:              |                       |                      |
| Hedged AFS - Other expense, net                              | (33 )                 | (2 )                 |
| Unhedged AFS - Other comprehensive (loss) income, net of tax | —                     | (31 )                |
| Carrying value                                               | \$ 100                | \$ 162               |

During the three months ended September 30, 2016, the Company determined that the decline in value of AFS securities related to our investment in Lionsgate is other-than-temporary in nature and, as such, the cost basis was adjusted to a fair value of \$100 million. The impairment determination is based on the sustained decline in the stock price of Lionsgate in relation to the purchase price and the prolonged length of time the fair value of the investment has been less than the carrying value. Based on the other-than-temporary impairment determination, unrealized pre-tax losses of \$62 million previously recorded as a component of other comprehensive (loss) income were recognized as an impairment charge that is included as a component of other expense, net for the three months ended September 30, 2016.

The total decline in fair value of \$95 million on the Lionsgate investment since its purchase has been recorded to other expense, net, of which \$93 million was recorded in 2016. (See Note 9.)

The Company hedged 50% of the shares with an equity collar (the "Lionsgate Collar") and pledged those shares as collateral to the derivative counter party. In the application of hedge accounting, when the share price of Lionsgate is within the boundaries of the collar and the hedge has no intrinsic value, the Company records the gains or losses on the Lionsgate AFS securities as a component of other comprehensive (loss) income. When the share price of the Lionsgate AFS is outside the boundaries of the collar and the hedge has intrinsic value, the Company records a gain or loss for the change in the fair value of the hedged portion of Lionsgate shares that correspond to the change in intrinsic value of the hedge as a component of other expense, net. (See Note 7.)

#### Cost Method Investments

Cost method investments include ownership rights in entities that do not provide the Company with control or significant influence in these investments and that have no readily determinable fair values. The Company's cost method investments as of September 30, 2016 primarily include an educational website and an electric car racing series.

#### NOTE 4. FAIR VALUE MEASUREMENTS

Fair value is defined as the amount that would be received for selling an asset or paid to transfer a liability in an orderly transaction between market participants. Assets and liabilities carried at fair value are classified in the following three categories:

Level 1-Quoted prices for identical instruments in active markets.

Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in Level 2 markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Level 3-Valuations derived from techniques in which one or more significant inputs are unobservable.



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The tables below present assets and liabilities measured at fair value on a recurring basis (in millions).

|                                   |                                           | September 30, 2016 |         |         |        |
|-----------------------------------|-------------------------------------------|--------------------|---------|---------|--------|
| Category                          | Balance Sheet Location                    | Level 1            | Level 2 | Level 3 | Total  |
| Assets                            |                                           |                    |         |         |        |
| Trading securities - mutual funds | Prepaid expenses and other current assets | \$ 161             | \$ —    | \$ —    | —\$161 |
| Available-for-sale securities:    |                                           |                    |         |         |        |
| Common stock                      | Other noncurrent assets                   | 50                 | —       | —       | 50     |
| Common stock - pledged            | Other noncurrent assets                   | 50                 | —       | —       | 50     |
| Derivatives:                      |                                           |                    |         |         |        |
| Cash flow hedges:                 |                                           |                    |         |         |        |
| Foreign exchange                  | Prepaid expenses and other current assets | —                  | 29      | —       | 29     |
| Interest rate                     | Prepaid expenses and other current assets | —                  | 2       | —       | 2      |
| Foreign exchange                  | Other noncurrent assets                   | —                  | 2       | —       | 2      |
| Net investment hedges:            |                                           |                    |         |         |        |
| Cross-currency swaps              | Other noncurrent assets                   | —                  | 22      | —       | 22     |
| Fair value hedges:                |                                           |                    |         |         |        |
| Equity (Lionsgate Collar)         | Other noncurrent assets                   | —                  | 36      | —       | 36     |
| No hedging designation:           |                                           |                    |         |         |        |
| Cross-currency swaps              | Other noncurrent assets                   | —                  | 1       | —       | 1      |
| Total                             |                                           | \$261              | \$ 92   | \$ —    | —\$353 |
| Liabilities                       |                                           |                    |         |         |        |
| Deferred compensation plan        | Accrued liabilities                       | \$ 161             | \$ —    | \$ —    | —\$161 |
| Derivatives:                      |                                           |                    |         |         |        |
| Cash flow hedges:                 |                                           |                    |         |         |        |
| Foreign exchange                  | Accrued liabilities                       | —                  | 31      | —       | 31     |
| Foreign exchange                  | Other noncurrent liabilities              | —                  | 4       | —       | 4      |
| Net investment hedges:            |                                           |                    |         |         |        |
| Cross-currency swaps              | Accrued liabilities                       | —                  | 3       | —       | 3      |
| Cross-currency swaps              | Other noncurrent liabilities              | —                  | 48      | —       | 48     |
| Total                             |                                           | \$ 161             | \$ 86   | \$ —    | —\$247 |

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| Category                          | Balance Sheet Location                    | December 31, 2015 |         |         | Total   |
|-----------------------------------|-------------------------------------------|-------------------|---------|---------|---------|
|                                   |                                           | Level 1           | Level 2 | Level 3 |         |
| Assets                            |                                           |                   |         |         |         |
| Trading securities - mutual funds | Prepaid expenses and other current assets | \$ 149            | \$ —    | \$ —    | —\$ 149 |
| Available-for-sale securities:    |                                           |                   |         |         |         |
| Common stock                      | Other noncurrent assets                   | 81                | —       | —       | 81      |
| Common stock - pledged            | Other noncurrent assets                   | 81                | —       | —       | 81      |
| Derivatives:                      |                                           |                   |         |         |         |
| Cash flow hedges:                 |                                           |                   |         |         |         |
| Foreign exchange                  | Prepaid expenses and other current assets | —                 | 21      | —       | 21      |
| Foreign exchange                  | Other noncurrent assets                   | —                 | 2       | —       | 2       |
| Fair value hedges:                |                                           |                   |         |         |         |
| Equity (Lionsgate Collar)         | Other noncurrent assets                   | —                 | 15      | —       | 15      |
| Total                             |                                           | \$ 311            | \$ 38   | \$ —    | —\$ 349 |
| Liabilities                       |                                           |                   |         |         |         |
| Deferred compensation plan        | Accrued liabilities                       | \$ 149            | \$ —    | \$ —    | —\$ 149 |
| Derivatives:                      |                                           |                   |         |         |         |
| Foreign exchange                  | Accrued liabilities                       | —                 | 4       | —       | 4       |
| Total                             |                                           | \$ 149            | \$ 4    | \$ —    | —\$ 153 |

Trading securities are comprised of investments in mutual funds held in a separate trust which are owned as part of the Company's deferred compensation plan. The fair value of Level 1 trading securities was determined by reference to the quoted market price per unit in active markets multiplied by the number of units held without consideration of transaction costs. The fair value of the deferred compensation plan liability was determined based on the fair value of the related investments elected by employees.

AFS securities represent equity investments with readily determinable fair values. The fair value of Level 1 AFS securities was determined by reference to the quoted market price per unit in active markets multiplied by the number of units held without consideration of transaction costs. (See Note 3).

Derivative financial instruments are comprised of foreign exchange, interest rate and equity contracts. (See Note 7).

In addition to the financial instruments listed in the tables above, the Company holds other financial instruments, including cash deposits, accounts receivable, accounts payable, commercial paper, borrowings under the revolving credit facility, capital leases and senior notes. The carrying values for such financial instruments, other than the senior notes, each approximated their fair values as of September 30, 2016. The estimated fair value of the Company's outstanding senior notes using quoted prices from over the counter markets, considered Level 2 inputs, was \$7.7 billion and \$6.6 billion as of September 30, 2016 and December 31, 2015, respectively.

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NOTE 5. CONTENT RIGHTS

The table below presents the components of content rights (in millions).

|                            | September 30,<br>2016 | December 31,<br>2015 |
|----------------------------|-----------------------|----------------------|
| Produced content rights:   |                       |                      |
| Completed                  | \$ 3,846              | \$ 3,624             |
| In-production              | 452                   | 376                  |
| Coproduced content rights: |                       |                      |
| Completed                  | 686                   | 691                  |
| In-production              | 54                    | 62                   |
| Licensed content rights:   |                       |                      |
| Acquired                   | 1,103                 | 1,078                |
| Prepaid                    | 157                   | 96                   |
| Content rights, at cost    | 6,298                 | 5,927                |
| Accumulated amortization   | (3,831)               | (3,584)              |
| Total content rights, net  | 2,467                 | 2,343                |
| Current portion            | (350)                 | (313)                |
| Noncurrent portion         | \$ 2,117              | \$ 2,030             |

Content expense is included in costs of revenues on the consolidated statements of operations and consisted of the following (in millions).

|                                    | Three<br>months<br>ended<br>September<br>30,<br>2016 |       | Nine months<br>ended<br>September 30,<br>2015 |         |
|------------------------------------|------------------------------------------------------|-------|-----------------------------------------------|---------|
|                                    | 2016                                                 | 2015  | 2016                                          | 2015    |
| Content amortization               | \$424                                                | \$414 | \$1,279                                       | \$1,210 |
| Other production charges           | 67                                                   | 54    | 205                                           | 163     |
| Content impairments <sup>(a)</sup> | 5                                                    | 3     | 14                                            | 33      |
| Total content expense              | \$496                                                | \$471 | \$1,498                                       | \$1,406 |

<sup>(a)</sup> Content impairments are generally recorded as a component of costs of revenue. However, during the three and nine months ended September 30, 2016, \$3 million in content impairments were reflected as a component of restructuring and other charges. During the nine months ended September 30, 2015, \$21 million in content impairments were reflected as a component of restructuring and other charges. These impairment charges resulted from the cancellation of certain high profile series due to legal circumstances pertaining to the associated talent.

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## NOTE 6. DEBT

The table below presents the components of outstanding debt (in millions).

|                                                                        | September 30, December 31, |          |
|------------------------------------------------------------------------|----------------------------|----------|
|                                                                        | 2016                       | 2015     |
| 5.625% Senior notes, semi-annual interest, due August 2019             | \$ 500                     | \$ 500   |
| 5.05% Senior notes, semi-annual interest, due June 2020                | 1,300                      | 1,300    |
| 4.375% Senior notes, semi-annual interest, due June 2021               | 650                        | 650      |
| 2.375% Senior notes, euro denominated, annual interest, due March 2022 | 336                        | 328      |
| 3.30% Senior notes, semi-annual interest, due May 2022                 | 500                        | 500      |
| 3.25% Senior notes, semi-annual interest, due April 2023               | 350                        | 350      |
| 3.45% Senior notes, semi-annual interest, due March 2025               | 300                        | 300      |
| 4.90% Senior notes, semi-annual interest, due March 2026               | 500                        | —        |
| 1.90% Senior notes, euro denominated, annual interest, due March 2027  | 672                        | 656      |
| 6.35% Senior notes, semi-annual interest, due June 2040                | 850                        | 850      |
| 4.95% Senior notes, semi-annual interest, due May 2042                 | 500                        | 500      |
| 4.875% Senior notes, semi-annual interest, due April 2043              | 850                        | 850      |
| Revolving credit facility                                              | 545                        | 782      |
| Commercial paper                                                       | 70                         | 93       |
| Capital lease obligations                                              | 142                        | 142      |
| Total debt                                                             | 8,065                      | 7,801    |
| Unamortized discount and debt issuance costs                           | (69)                       | (66)     |
| Debt, net                                                              | 7,996                      | 7,735    |
| Current portion of debt                                                | (95)                       | (119)    |
| Noncurrent portion of debt                                             | \$ 7,901                   | \$ 7,616 |

## Senior Notes

On March 11, 2016, Discovery Communications, LLC ("DCL"), a wholly-owned subsidiary of the Company, issued \$500 million principal amount of 4.90% senior notes due March 11, 2026 (the "2016 USD Notes"). The proceeds received by DCL from the offering were net of a \$2 million issuance discount and \$3 million of debt issuance costs. Interest on the 2016 USD Notes is payable semi-annually on March 11 and September 11 of each year.

## Revolving Credit Facility

On February 4, 2016, DCL amended its \$1.5 billion revolving credit facility to allow DCL and certain designated foreign subsidiaries of DCL to borrow up to \$2.0 billion, including a \$100 million sublimit for the issuance of standby letters of credit and a \$50 million sublimit for swingline loans. Borrowing capacity under this agreement is reduced by any outstanding borrowings under the commercial paper program discussed below. The revolving credit facility agreement provides for a maturity date of February 4, 2021 and the option for up to two additional 364-day renewal periods.

As of September 30, 2016, the Company had outstanding borrowings under the revolving credit facility of \$545 million at a weighted average interest rate of 1.94%, none of which were denominated in foreign currencies. As of December 31, 2015, the Company had outstanding borrowings under the revolving credit facility of \$782 million at a weighted average interest rate of 1.55% of which \$207 million was denominated in foreign currencies. The interest rate on borrowings under the revolving credit facility is variable based on DCL's then-current credit ratings for its publicly traded debt and changes in financial index rates. For dollar-denominated borrowings, the interest rate is based, at the Company's option, on either adjusted LIBOR plus a margin, or an alternate base rate plus a margin. For borrowings denominated in foreign currencies, the interest rate is based on adjusted LIBOR, plus a margin. The current margins are 1.30% and 0.30%, respectively, per annum for adjusted LIBOR and alternate base rate

borrowings. A monthly facility fee is charged based on the total capacity of the facility, and interest is charged based on the amount borrowed on the facility. The current facility fee rate is 0.20% per annum and subject to change based on DCL's then-current credit ratings. All obligations of DCL and the other borrowers under the revolving credit facility are unsecured and are fully and unconditionally guaranteed by Discovery.

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The credit agreement governing the revolving credit facility contains customary representations, warranties and events of default, as well as affirmative and negative covenants. As of September 30, 2016, the Company, DCL and the other borrowers were in compliance with all covenants, and there were no events of default under the revolving credit facility.

Commercial Paper

The Company's commercial paper program is supported by the revolving credit facility described above. Outstanding commercial paper borrowings were \$70 million with a weighted average interest rate of approximately .90% as of September 30, 2016 and \$93 million with a weighted average interest rate of approximately 1.10% as of December 31, 2015.

NOTE 7. DERIVATIVE FINANCIAL INSTRUMENTS

The Company uses derivative financial instruments to modify its exposure to market risks from changes in foreign currency exchange rates, interest rates and the fair value of investments classified as AFS securities. At the inception of a derivative contract, the Company designates the derivative as one of four types based on the Company's intentions and belief as to likely effectiveness as a hedge. These four types are: (1) a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow hedge"), (2) a hedge of net investments in foreign operations ("net investment hedge"), (3) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value hedge"), or (4) an instrument with no hedging designation. The Company does not enter into or hold derivative financial instruments for speculative trading purposes.

Cash Flow Hedges

The Company designates foreign currency forward and option contracts as cash flow hedges to mitigate foreign currency risk arising from third-party revenue and inter-company licensing agreements. The Company also designates interest rate contracts used to hedge the pricing for certain senior notes as cash flow hedges. Gains and losses on the effective portion of designated cash flow hedges are initially recorded in accumulated other comprehensive loss on the consolidated balance sheets and reclassified into the statements of operations in the same line item in which the hedged item is recorded and in the same period as the hedged item affects earnings. If it becomes probable that a forecasted transaction will not occur, any related gains and losses recorded in accumulated other comprehensive loss on the consolidated balance sheets are reclassified to other expense, net on the consolidated statements of operations in that period. The total notional amount of outstanding foreign exchange and interest rate contracts designated as cash flow hedges as of September 30, 2016 were \$510 million and \$900 million, respectively. The total notional amount of outstanding foreign exchange contracts designated as cash flow hedges as of December 31, 2015 was \$868 million. There were no interest rate contracts outstanding as of December 31, 2015.

During the three months ended September 30, 2016, the Company discontinued hedge accounting for certain foreign currency forward and option contracts designated as cash flow hedges because the occurrence of the forecasted transactions was no longer probable, but reasonably possible. The notional amount and fair value of these hedges as of September 30, 2016 was \$125 million and \$14 million, respectively, and was classified in prepaid and other current assets and other noncurrent assets on the Company's consolidated balance sheet. As a result of the change in probability, future changes in the fair value of these hedges will be reflected immediately in other expense, net on the consolidated statements of operations. Unrealized gains recognized prior to the change in probability will remain in accumulated other comprehensive loss until earnings are impacted by the forecasted transaction or the forecasted transaction becomes probable of not occurring, at which time they will be reclassified to other expense, net on the consolidated statements of operations.

During the three months ended March 31, 2015, the Company terminated and settled its interest rate cash flow hedges following the pricing of its 3.45% senior notes due March 15, 2025 (the "2015 USD Notes"). The total notional value of the interest rate forward contracts at the termination date was \$490 million, which exceeded the \$300 million

principal amount of the 2015 USD Notes. Of the \$40 million pretax loss recorded in accumulated other comprehensive loss at the termination date, \$29 million was an effective cash flow hedge that will be amortized as an adjustment to interest expense over the ten year term of the 2015 USD Notes consistent with amortization of the debt discount. The remaining \$11 million was reclassified into other expense, net on the consolidated statements of operations during the three months ended March 31, 2015, because the forecasted borrowing transaction was no longer probable.

#### Net Investment Hedges

In 2016, the Company entered into a series of cross-currency swaps designated as hedges of net investments in foreign operations. Changes in the fair value of these cross-currency swaps, including the accrual and periodic cash settlement of interest, are reported in the same manner as translation adjustments to the extent that they are effective. Changes in the value of the investment due to changes in spot rates are offset by fair value changes in the effective portion of the derivative instruments. Both changes are recorded as cumulative translation adjustments, a component of accumulated other comprehensive loss, and are only

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recognized in earnings upon the liquidation or sale of the hedged investment. If the notional amount of the instrument designated as the hedge of a net investment is greater than the portion of the net investment being hedged, hedge ineffectiveness, which is the gain or loss of the portion over hedged, is reclassified to other expense, net on the consolidated statements of operations in that period. The notional amount of net investment hedges outstanding as of September 30, 2016 was \$770 million. There were no derivative contracts designated as net investment hedges outstanding as of December 31, 2015.

**Fair Value Hedges**

The Company designates derivative instruments used to mitigate the risk of changes in the fair value of its AFS securities as fair value hedges. On November 12, 2015, the Company entered into the Lionsgate Collar, designed to mitigate the risk of market fluctuations with respect to 50% of the Lionsgate shares held by the Company. (See Note 3.) The collar, which qualifies for hedge accounting, settles in three tranches starting in 2019 and ending in 2022. The Company records gains and losses from the Lionsgate Collar as a component of other expense, net on the consolidated statements of operations. The notional amount of fair value hedges outstanding was \$97 million as of September 30, 2016 and December 31, 2015.

**No Hedging Designation**

The Company may also enter into derivative financial instruments that do not qualify for hedge accounting and are not designated as hedges. These instruments are intended to mitigate economic exposures of the Company. Realized and unrealized gains and losses on instruments that do not qualify for hedge accounting are reflected in other expense, net on the consolidated statements of operations. The total notional amount of outstanding foreign exchange and interest rate contracts with no hedging designation as of September 30, 2016 was \$27 million and \$9 million, respectively. There were no derivative contracts that did not receive hedging designation outstanding as of December 31, 2015.

**Financial Statement Presentation**

The Company records all unsettled derivative contracts at their gross fair values on the consolidated balance sheets. (See Note 4.) There were no amounts eligible to be offset under master netting agreements as of September 30, 2016 and December 31, 2015. The portion of the fair value that represents cash flows occurring within one year are classified as current, and the portion related to cash flows occurring beyond one year are classified as noncurrent. The cash flows from the effective portion of derivative instruments used as hedges are classified in the consolidated statements of cash flows in the same section as the cash flows from the hedged item. For example, the cash paid or received to settle the effective portion of foreign exchange derivatives intended to hedge distribution revenue earned during the nine months ended September 30, 2016 is reported as an operating activity in the consolidated statements of cash flows consistent with the classification of cash received from customers. The cash flows from the ineffective portion of derivative instruments used as hedges, periodic settlement of interest on cross-currency swaps, and derivative contracts not designated as hedges are reported as investing activities in the consolidated statements of cash flows.

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The following table summarizes the impact of derivative financial instruments on the Company's consolidated balance sheets (in millions).

| Category                  | Balance Sheet Location                    | Fair Value         |                   |
|---------------------------|-------------------------------------------|--------------------|-------------------|
|                           |                                           | September 30, 2016 | December 31, 2015 |
| Cash flow hedges:         |                                           |                    |                   |
| Foreign exchange          | Prepaid expenses and other current assets | \$ 29              | \$ 21             |
| Interest rate             | Prepaid expenses and other current assets | 2                  | —                 |
| Foreign exchange          | Other noncurrent assets                   | 2                  | 2                 |
| Foreign exchange          | Accrued liabilities                       | 31                 | 4                 |
| Foreign exchange          | Other noncurrent liabilities              | 4                  | —                 |
| Net investment hedges:    |                                           |                    |                   |
| Cross-currency swaps      | Other noncurrent assets                   | 22                 | —                 |
| Cross-currency swaps      | Accrued liabilities                       | 3                  | —                 |
| Cross-currency swaps      | Other noncurrent liabilities              | 48                 | —                 |
| Fair value hedges:        |                                           |                    |                   |
| Equity (Lionsgate collar) | Other noncurrent assets                   | 36                 | 15                |
| No hedging designation:   |                                           |                    |                   |
| Cross-currency swaps      | Other noncurrent assets                   | 1                  | —                 |

The following table presents the pretax impact of derivatives designated as cash flow hedges on income and other comprehensive (loss) income (in millions).

|                                                                                                        | Three Months Ended September 30, 2016 |       | Nine Months Ended September 30, 2016 |       |
|--------------------------------------------------------------------------------------------------------|---------------------------------------|-------|--------------------------------------|-------|
| Gains (losses) recognized in accumulated other comprehensive loss:                                     |                                       |       |                                      |       |
| Foreign exchange - derivative adjustments                                                              | \$ —                                  | \$ 10 | \$ (18)                              | \$ 22 |
| Interest rate - derivative adjustments                                                                 | 2                                     | 1     | 2                                    | (11)  |
| (Losses) gains reclassified into income from accumulated other comprehensive loss (effective portion): |                                       |       |                                      |       |
| Foreign exchange - distribution revenue                                                                | (1)                                   | 7     | (15)                                 | 15    |
| Foreign exchange - advertising revenue                                                                 | (1)                                   | —     | (2)                                  | 1     |
| Foreign exchange - costs of revenues                                                                   | 8                                     | 2     | 15                                   | 6     |
| Foreign exchange - other expense, net                                                                  | 1                                     | 1     | 3                                    | 2     |
| Interest rate - interest expense                                                                       | (1)                                   | (1)   | (3)                                  | (1)   |
| Losses reclassified into income from accumulated other comprehensive loss (ineffective portion):       |                                       |       |                                      |       |
| Interest rate - other expense, net                                                                     | —                                     | —     | —                                    | (11)  |
| Fair value excluded from effectiveness assessment:                                                     |                                       |       |                                      |       |
| Foreign exchange - other expense, net                                                                  | (1)                                   | —     | (5)                                  | —     |

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If current fair values of designated cash flow hedges as of September 30, 2016 remained static over the next twelve months, the Company would reclassify \$6 million of net deferred losses from accumulated other comprehensive loss into income in the next twelve months.

The following table presents the pretax impact of derivatives designated as net investment hedges on other comprehensive (loss) income (in millions).

|                                                                    | Three Months<br>Ended<br>September 30,<br>2016 |    | Nine Months<br>Ended<br>September 30,<br>2015 |      |
|--------------------------------------------------------------------|------------------------------------------------|----|-----------------------------------------------|------|
| (Losses) gains recognized in accumulated other comprehensive loss: |                                                |    |                                               |      |
| Cross-currency swaps - changes in fair value                       | \$ (21 )                                       | \$ | —\$ (29 )                                     | \$ — |
| Cross-currency swaps - interest settlements                        | 2                                              | —  | 2                                             | —    |
| Total other comprehensive loss                                     | \$ (19 )                                       | \$ | —\$ (27 )                                     | \$ — |

The following table presents the pretax impact of derivatives designated as fair value hedges on income, including offsetting changes in fair value of the hedged items and amounts excluded from the assessment of effectiveness (in millions). The Company recognized \$2 million of ineffectiveness on fair value hedges for the three months ended September 30, 2016. There were no amounts of ineffectiveness recognized on fair value hedges for the nine months ended September 30, 2016. The Company had no outstanding fair value hedges during the three and nine months ended September 30, 2015.

|                                                                       | Three<br>Months<br>Ended<br>September<br>30, 2016 |    | Nine<br>Months<br>Ended<br>September<br>30, 2016 |  |
|-----------------------------------------------------------------------|---------------------------------------------------|----|--------------------------------------------------|--|
| Losses on changes in fair value of hedged AFS                         | \$ (1 )                                           | \$ | (31 )                                            |  |
| Gains on changes in the intrinsic value of equity contracts           | 3                                                 |    | 31                                               |  |
| Fair value of equity contracts excluded from effectiveness assessment | (3 )                                              |    | (10 )                                            |  |
| Total in other expense, net                                           | \$ (1 )                                           | \$ | (10 )                                            |  |

The following table presents the pretax gains (losses) on derivatives not designated as hedges and recognized in other expense, net in the consolidated statements of operations (in millions).

|                              | Three<br>Months<br>Ended<br>September<br>30,<br>2016 |      | Nine<br>Months<br>Ended<br>September<br>30,<br>2015 |      |
|------------------------------|------------------------------------------------------|------|-----------------------------------------------------|------|
| Foreign exchange derivatives | \$ 1                                                 | \$ 8 | \$ (1 )                                             | \$ 8 |

#### NOTE 8. REDEEMABLE NONCONTROLLING INTERESTS

Redeemable noncontrolling interests reflected as of the balance sheet date are the greater of the noncontrolling interest balances adjusted for comprehensive income items and distributions or the redemption values remeasured at the period end foreign exchange rates (i.e., the "floor"). Adjustments to the carrying amount of redeemable noncontrolling interests to redemption value as a result of changes in exchange rates are reflected in currency translation adjustments, a component of other comprehensive (loss) income; however, such currency translation adjustments to redemption value are allocated to Discovery stockholders only. Redeemable noncontrolling interest adjustments of redemption

value to the floor are reflected in retained earnings. Any adjustment of redemption value to the floor that reflects a redemption in excess of fair value is included as an adjustment to net income available to Discovery stockholders in the calculation of earnings per share. There were no current period adjustments to reflect a redemption in excess of fair value. (See Note 12.)

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The table below presents the reconciliation of changes in redeemable noncontrolling interests (in millions).

|                                                                                       | Three Months Ended September 30, |        | Nine Months Ended September 30, |        |
|---------------------------------------------------------------------------------------|----------------------------------|--------|---------------------------------|--------|
|                                                                                       | 2016                             | 2015   | 2016                            | 2015   |
| Beginning balance                                                                     | \$241                            | \$754  | \$241                           | \$747  |
| Initial fair value of redeemable noncontrolling interests of acquired businesses      | —                                | —      | —                               | 60     |
| Reclassification of redeemable equity to current liabilities                          | —                                | (551 ) | —                               | (551 ) |
| Cash distributions to redeemable noncontrolling interests                             | —                                | (2 )   | (17 )                           | (38 )  |
| Comprehensive income adjustments:                                                     |                                  |        |                                 |        |
| Net income attributable to redeemable noncontrolling interests                        | 6                                | 4      | 18                              | 7      |
| Other comprehensive income (loss) attributable to redeemable noncontrolling interests | —                                | 3      | 3                               | (23 )  |
| Currency translation on redemption values                                             | —                                | 4      | 4                               | (36 )  |
| Retained earnings adjustments:                                                        |                                  |        |                                 |        |
| Adjustments of redemption values to the floor                                         | —                                | 28     | (2 )                            | 74     |
| Ending balance                                                                        | \$247                            | \$240  | \$247                           | \$240  |

Redeemable noncontrolling interests consist of the following arrangements:

In connection with the acquisition of a controlling interest in Eurosport France on March 31, 2015, the Company recognized \$60 million for TF1's 49% redeemable noncontrolling interest. On July 22, 2015, TF1 exercised its right to put the entirety of its remaining 49% noncontrolling interest in both Eurosport France and Eurosport International to the Company for €491 million (\$551 million as of the date redemption became mandatory, and \$548 million on October 1, 2015 when the transaction closed). The difference between the carrying amount of the redeemable noncontrolling interest and its fair value at the date of exercise resulted in a €25 million (\$28 million) adjustment to retained earnings, recognized as a component of redeemable noncontrolling interest adjustments to redemption value in the consolidated statements of equity for the period ended September 30, 2015. Upon acquisition of TF1's noncontrolling interest on October 1, 2015, the Company adjusted the accumulated other comprehensive income balance of \$61 million attributable to TF1 and allocated it to Discovery stockholders.

In connection with its non-controlling interest in Discovery Family, Hasbro has the right to put the entirety of its remaining 40% non-controlling interest to the Company for one year after December 31, 2021, or in the event a Discovery performance obligation related to Discovery Family is not met. Embedded in the redeemable noncontrolling interest is also a Discovery call right that is exercisable for one year after December 31, 2021. Upon the exercise of the put or call options, the price to be paid for the redeemable noncontrolling interest is generally a function of the then-current fair market value of the redeemable noncontrolling interest, to which certain discounts and floor values may apply in specified situations depending upon the party exercising the put or call and the basis for the exercise of the put or call. As Hasbro's put right is outside the control of the Company, Hasbro's 40% noncontrolling interest is presented as redeemable noncontrolling interest outside of permanent equity on the Company's consolidated balance sheet.

In connection with its non-controlling interest in Discovery Japan, Jupiter Telecommunications Co., Ltd ("J:COM") has the right to put all, but not less than all, of its 20% noncontrolling interest to Discovery at any time for cash. Through January 10, 2017, the redemption value is the January 10, 2013 fair value denominated in Japanese yen; thereafter, as chosen by J:COM, the redemption value is the then-current fair value or the January 10, 2013 fair value denominated in Japanese yen.

NOTE 9. EQUITY

Common Stock Repurchase Program

On August 3, 2010, the Company implemented a stock repurchase program. Under the Company's stock repurchase program, management is authorized to purchase shares of the Company's common stock from time to time through open market purchases, privately negotiated transactions at prevailing prices, pursuant to one or more accelerated stock repurchase agreements, or other derivative arrangements as permitted by securities laws and other legal requirements, and subject to stock price, business and market conditions and other factors. Over the life of the program, authorization under the stock repurchase program has

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totaled \$7.5 billion. As of September 30, 2016, the Company had remaining authorization of \$1.3 billion for future repurchases under the existing stock repurchase program, which will expire on October 8, 2017.

All common stock repurchases have been made through open market transactions and repurchased common stock has been recorded as treasury stock on the consolidated balance sheet. As of September 30, 2016, the Company had repurchased over the life of the program 3 million and 144 million shares of Series A and Series C common stock, respectively, for the aggregate purchase price of \$171 million and \$6 billion, respectively. The table below presents a summary of common stock repurchases (in millions).

|                        | Three Months<br>Ended<br>September<br>30,<br>2016 |    | Nine<br>Months<br>Ended<br>September<br>30,<br>2015 |       |
|------------------------|---------------------------------------------------|----|-----------------------------------------------------|-------|
| Series C Common Stock: |                                                   |    |                                                     |       |
| Shares repurchased     | 10.4                                              | —  | 29.2                                                | 10.3  |
| Purchase price         | \$ 253                                            | \$ | —\$753                                              | \$323 |

Common Stock Repurchase Contract

On August 22, 2016, the Company made an up front cash payment of \$71 million to enter into a prepaid common stock repurchase contract for the Company's Series C common stock. The contract will settle during the quarter ended December 31, 2016. If Discovery's Series C common stock price is below \$25.86 at expiry, the Company will receive 3 million shares of its Series C common stock. If Discovery's Series C common stock price is above \$25.86 at expiry, the Company can elect to receive \$75 million in cash or that number of shares of Series C common stock at the then current market price equal to \$75 million. The contract represents a hybrid instrument consisting of a debt instrument and an embedded equity-linked derivative that does not require bifurcation because it is linked to the Company's own stock. The contract is accounted for as an equity transaction. As of September 30, 2016, the \$71 million prepayment was recorded as a reduction in additional paid-in capital. If the contract settles in shares of Series C common stock, that amount will be reclassified to treasury stock. If the contract settles in cash, the \$75 million cash receipt will be recorded as an increase to additional paid-in capital.

Preferred Stock Repurchase and Conversion

The Company has an agreement with Advance/Newhouse Programming Partnership ("Advance/Newhouse") to repurchase, on a quarterly basis, a number of shares of Series C convertible preferred stock convertible into a number of shares of Series C common stock equal to 3/7 of the number of shares of Series C common stock purchased under the Company's common stock repurchase program during the then most recently completed fiscal quarter. The price paid per preferred share is calculated as 99% of the average price paid for the Series C common shares repurchased by the Company during the applicable fiscal quarter multiplied by the Series C conversion rate. The Series C preferred stock is convertible, at the option of the holder, into two shares of Series C common stock. The Advance/Newhouse repurchases are made outside of the Company's publicly announced common stock repurchase program. The repurchase transactions are recorded as a decrease in par value of preferred stock and retained earnings upon settlement as there is no remaining additional paid-in capital for this class of stock.

The table below presents a summary of Series C convertible preferred stock repurchases (in millions).

| Three<br>Months<br>Ended<br>September<br>30, | Nine<br>Months<br>Ended<br>September<br>30, |
|----------------------------------------------|---------------------------------------------|
|----------------------------------------------|---------------------------------------------|

|                                       | 2016   | 2015  | 2016   | 2015   |
|---------------------------------------|--------|-------|--------|--------|
| Series C Convertible Preferred Stock: |        |       |        |        |
| Shares repurchased                    | 2.2    | 0.8   | 6.9    | 3.9    |
| Purchase price                        | \$ 121 | \$ 52 | \$ 371 | \$ 253 |

Based on the number of shares of Series C common stock repurchased during the three months ended September 30, 2016, the Company expects to repurchase, convert and retire 2.2 million shares of its Series C convertible preferred shares under the preferred stock conversion and repurchase arrangement for an aggregate purchase price of \$108 million on or about November 3, 2016. The expected purchase of these shares has not been recognized as a liability on the Company's consolidated balance sheet as of September 30, 2016, due to certain termination rights held by Discovery and Advance/Newhouse in the preferred stock conversion and repurchase arrangement.

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In addition, on February 25, 2016, at the request of Advance/Newhouse and in accordance with the Company's Articles of Incorporation, the Company converted 292,500 shares of Advance/Newhouse Series C convertible preferred stock into 585,000 shares of Series C common stock.

Stock Repurchases

As of September 30, 2016, total shares repurchased, on a split-adjusted and as-converted basis, under these programs represent 34% of the Company's outstanding shares from the time the repurchase programs were authorized or 30% net of issuances for equity based compensation.

Other Comprehensive (Loss) Income

The table below presents the tax effects related to each component of other comprehensive (loss) income and reclassifications made into the consolidated statements of operations (in millions).

|                                                | Three Months Ended<br>September 30, 2016 |                             |            | Three Months Ended<br>September 30, 2015 |                             |            |
|------------------------------------------------|------------------------------------------|-----------------------------|------------|------------------------------------------|-----------------------------|------------|
|                                                | Pretax                                   | Tax<br>Benefit<br>(Expense) | Net-of-tax | Pretax                                   | Tax<br>Benefit<br>(Expense) | Net-of-tax |
| Currency translation adjustments:              |                                          |                             |            |                                          |                             |            |
| Unrealized losses - foreign currency           | \$(10)                                   | \$ 10                       | \$ —       | \$(57)                                   | \$ 11                       | \$ (46 )   |
| Unrealized losses - net investment hedges      | (19 )                                    | 3                           | (16 )      | —                                        | —                           | —          |
| Total currency translation adjustments         | (29 )                                    | 13                          | (16 )      | (57 )                                    | 11                          | (46 )      |
| Market value adjustments:                      |                                          |                             |            |                                          |                             |            |
| Unrealized losses - AFS securities             | (2 )                                     | 2                           | —          | —                                        | —                           | —          |
| Reclassifications to other expense, net:       |                                          |                             |            |                                          |                             |            |
| Other-than-temporary-impairment AFS securities | 62                                       | (12 )                       | 50         | —                                        | —                           | —          |
| Hedged portion of AFS securities               | 1                                        | (1 )                        | —          | —                                        | —                           | —          |
| Total market value adjustments                 | 61                                       | (11 )                       | 50         | —                                        | —                           | —          |
| Derivative adjustments:                        |                                          |                             |            |                                          |                             |            |
| Unrealized gains                               | 2                                        | (2 )                        | —          | 11                                       | (4 )                        | 7          |
| Reclassifications:                             |                                          |                             |            |                                          |                             |            |
| Distribution revenue                           | 11                                       | (4 )                        | 7          | (7 )                                     | 2                           | (5 )       |
| Advertising revenue                            | 1                                        | —                           | 1          | —                                        | —                           | —          |
| Costs of revenues                              | (8 )                                     | 3                           | (5 )       | (2 )                                     | 1                           | (1 )       |
| Interest expense                               | 1                                        | —                           | 1          | 1                                        | —                           | 1          |
| Other expense, net                             | (1 )                                     | —                           | (1 )       | (1 )                                     | —                           | (1 )       |
| Total derivative adjustments                   | 6                                        | (3 )                        | 3          | 2                                        | (1 )                        | 1          |
| Other comprehensive income (loss)              | \$38                                     | \$ (1 )                     | \$ 37      | \$(55)                                   | \$ 10                       | \$ (45 )   |

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|                                                | Nine Months Ended<br>September 30, 2016 |                             |            | Nine Months Ended<br>September 30, 2015 |                             |            |
|------------------------------------------------|-----------------------------------------|-----------------------------|------------|-----------------------------------------|-----------------------------|------------|
|                                                | Pretax                                  | Tax<br>Benefit<br>(Expense) | Net-of-tax | Pretax                                  | Tax<br>Benefit<br>(Expense) | Net-of-tax |
| Currency translation adjustments:              |                                         |                             |            |                                         |                             |            |
| Unrealized losses - foreign currency           | \$(34)                                  | \$ 35                       | \$ 1       | \$(197)                                 | \$ 6                        | \$ (191 )  |
| Unrealized losses - net investment hedges      | (27 )                                   | 3                           | (24 )      | —                                       | —                           | —          |
| Reclassifications:                             |                                         |                             |            |                                         |                             |            |
| Gain on disposition                            | —                                       | —                           | —          | 23                                      | —                           | 23         |
| Other expense, net                             | —                                       | —                           | —          | 6                                       | —                           | 6          |
| Total currency translation adjustments         | (61 )                                   | 38                          | (23 )      | (168 )                                  | 6                           | (162 )     |
| Market value adjustments:                      |                                         |                             |            |                                         |                             |            |
| Unrealized losses - AFS securities             | (62 )                                   | 12                          | (50 )      | —                                       | —                           | —          |
| Reclassifications to other expense, net:       |                                         |                             |            |                                         |                             |            |
| Other-than-temporary-impairment AFS securities | 62                                      | (12 )                       | 50         | —                                       | —                           | —          |
| Hedged portion of AFS securities               | 31                                      | (6 )                        | 25         | —                                       | —                           | —          |
| Total market value adjustments                 | 31                                      | (6 )                        | 25         | —                                       | —                           | —          |
| Derivative adjustments:                        |                                         |                             |            |                                         |                             |            |
| Unrealized (losses) gains                      | (16 )                                   | 5                           | (11 )      | 11                                      | (4 )                        | 7          |
| Reclassifications:                             |                                         |                             |            |                                         |                             |            |
| Distribution revenue                           | 15                                      | (5 )                        | 10         | (15 )                                   | 5                           | (10 )      |
| Advertising revenue                            | 2                                       | —                           | 2          | (1 )                                    | —                           | (1 )       |
| Costs of revenues                              | (15 )                                   | 5                           | (10 )      | (6 )                                    | 2                           | (4 )       |
| Interest expense                               | 3                                       | (1 )                        | 2          | 1                                       | —                           | 1          |
| Other expense, net                             | (3 )                                    | 1                           | (2 )       | 9                                       | (3 )                        | 6          |
| Total derivative adjustments                   | (14 )                                   | 5                           | (9 )       | (1 )                                    | —                           | (1 )       |
| Other comprehensive loss                       | \$(44)                                  | \$ 37                       | \$ (7 )    | \$(169)                                 | \$ 6                        | \$ (163 )  |
| Accumulated Other Comprehensive Loss           |                                         |                             |            |                                         |                             |            |

The table below presents the changes in the components of accumulated other comprehensive loss, net of taxes (in millions).

|                                                                           | Three Months Ended September 30, 2016  |                                |                           |                                               |
|---------------------------------------------------------------------------|----------------------------------------|--------------------------------|---------------------------|-----------------------------------------------|
|                                                                           | Currency<br>Translation<br>Adjustments | Market<br>Value<br>Adjustments | Derivative<br>Adjustments | Accumulated<br>Other<br>Comprehensive<br>Loss |
| Beginning balance                                                         | \$(616)                                | \$ (52 )                       | \$ (12 )                  | \$ (680 )                                     |
| Other comprehensive (loss) income before reclassifications                | (16 )                                  | —                              | —                         | (16 )                                         |
| Reclassifications from accumulated other comprehensive loss to net income | —                                      | 50                             | 3                         | 53                                            |
| Other comprehensive (loss) income                                         | (16 )                                  | 50                             | 3                         | 37                                            |
| Ending balance                                                            | \$(632)                                | \$ (2 )                        | \$ (9 )                   | \$ (643 )                                     |



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|                                                                                | Three Months Ended September 30, 2015  |                                |                           |                                            |
|--------------------------------------------------------------------------------|----------------------------------------|--------------------------------|---------------------------|--------------------------------------------|
|                                                                                | Currency<br>Translation<br>Adjustments | Market<br>Value<br>Adjustments | Derivative<br>Adjustments | Accumulated<br>Other<br>Comprehensive Loss |
| Beginning balance                                                              | \$ (457 )                              | \$ (2 )                        | \$ (1 )                   | \$ (460 )                                  |
| Other comprehensive (loss) income before reclassifications                     | (46 )                                  | —                              | 7                         | (39 )                                      |
| Reclassifications from accumulated other comprehensive loss to net income      | —                                      | —                              | (6 )                      | (6 )                                       |
| Other comprehensive (loss) income                                              | (46 )                                  | —                              | 1                         | (45 )                                      |
| Other comprehensive income attributable to redeemable noncontrolling interests | (3 )                                   | —                              | —                         | (3 )                                       |
| Ending balance                                                                 | \$ (506 )                              | \$ (2 )                        | \$ —                      | \$ (508 )                                  |

|                                                                                | Nine Months Ended September 30, 2016   |                                |                           |                                            |
|--------------------------------------------------------------------------------|----------------------------------------|--------------------------------|---------------------------|--------------------------------------------|
|                                                                                | Currency<br>Translation<br>Adjustments | Market<br>Value<br>Adjustments | Derivative<br>Adjustments | Accumulated<br>Other<br>Comprehensive Loss |
| Beginning balance                                                              | \$(606 )                               | \$ (27 )                       | \$ —                      | \$ (633 )                                  |
| Other comprehensive loss before reclassifications                              | (23 )                                  | (50 )                          | (11 )                     | (84 )                                      |
| Reclassifications from accumulated other comprehensive loss to net income      | —                                      | 75                             | 2                         | 77                                         |
| Other comprehensive (loss) income                                              | (23 )                                  | 25                             | (9 )                      | (7 )                                       |
| Other comprehensive income attributable to redeemable noncontrolling interests | (3 )                                   | —                              | —                         | (3 )                                       |
| Ending balance                                                                 | \$(632 )                               | \$ (2 )                        | \$ (9 )                   | \$ (643 )                                  |

|  | Nine Months Ended September 30, 2015   |                                |                           |                                            |
|--|----------------------------------------|--------------------------------|---------------------------|--------------------------------------------|
|  | Currency<br>Translation<br>Adjustments | Market<br>Value<br>Adjustments | Derivative<br>Adjustments | Accumulated<br>Other<br>Comprehensive Loss |

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|                                                                              |          |         |      |           |
|------------------------------------------------------------------------------|----------|---------|------|-----------|
| Beginning balance                                                            | \$ (367) | \$ (2 ) | \$ 1 | \$ (368 ) |
| Other comprehensive loss before reclassifications                            | (191 )   | —       | 7    | (184 )    |
| Reclassifications from accumulated other comprehensive loss to net income    | 29       | —       | (8 ) | 21        |
| Other comprehensive loss                                                     | (162 )   | —       | (1 ) | (163 )    |
| Other comprehensive loss attributable to redeemable noncontrolling interests | 23       | —       | —    | 23        |
| Ending balance                                                               | \$ (506) | \$ (2 ) | \$ — | \$ (508 ) |

NOTE 10. EQUITY-BASED COMPENSATION

The Company has various incentive plans under which stock options, time-based restricted stock units ("RSUs"), performance-based restricted stock units ("PRSUs"), stock appreciation rights ("SARs") and unit awards have been issued. During the nine months ended September 30, 2016, the vesting and service requirements of equity-based awards granted were consistent with the arrangements disclosed in the 2015 Form 10-K.

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The table below presents the components of equity-based compensation expense (in millions).

|                                         | Three Months Ended September 30, 2016 |         | Nine Months Ended September 30, 2015 |       |
|-----------------------------------------|---------------------------------------|---------|--------------------------------------|-------|
|                                         | 2016                                  | 2015    | 2016                                 | 2015  |
| PRSUs                                   | \$ 12                                 | \$ (5 ) | \$ 21                                | \$ 8  |
| RSUs                                    | 4                                     | 4       | 14                                   | 12    |
| Stock options                           | 4                                     | 4       | 11                                   | 12    |
| SARs                                    | 2                                     | (12 )   | 3                                    | (15 ) |
| ESPP                                    | —                                     | —       | —                                    | 1     |
| Unit awards                             | —                                     | —       | —                                    | (2 )  |
| Total equity-based compensation expense | \$ 22                                 | \$ (9 ) | \$ 49                                | \$ 16 |
| Tax benefit (expense) recognized        | \$ 8                                  | \$ (4 ) | \$ 18                                | \$ 6  |

Compensation expense for all awards was recorded in selling, general and administrative expense on the consolidated statements of operations. The Company records expense for the fair value of cash-settled and other liability-classified equity-based compensation awards ratably over the graded vesting service period based on changes in fair value and the probability that performance targets will be met, if applicable, less estimated forfeitures. The table below presents current and non-current portions of liability-classified equity-based compensation awards (in millions).

|                                                                      | September 30, December 31, 2016 2015 |       |
|----------------------------------------------------------------------|--------------------------------------|-------|
| Current portion of liability-classified awards:                      |                                      |       |
| PRSUs                                                                | \$ 25                                | \$ —  |
| SARs                                                                 | 2                                    | 5     |
| Non-current portion of liability-classified awards:                  |                                      |       |
| PRSUs                                                                | 41                                   | 46    |
| SARs                                                                 | 4                                    | 3     |
| Total liability-classified equity based compensation award liability | \$ 72                                | \$ 54 |

The table below presents award activity (in millions, except weighted-average exercise price) for PRSUs, RSUs and SARs.

|                              | Nine Months Ended September 30, 2016 |                              |
|------------------------------|--------------------------------------|------------------------------|
|                              | Awards                               | Weighted-Average Grant Price |
| Awards granted:              |                                      |                              |
| PRSUs                        | 1.0                                  | \$ 25.15                     |
| RSUs                         | 1.4                                  | \$ 25.22                     |
| SARs                         | 2.4                                  | \$ 25.78                     |
| Awards converted or settled: |                                      |                              |
| PRSUs                        | 0.6                                  | \$ 22.32                     |
| RSUs                         | 0.4                                  | \$ 33.41                     |
| SARs                         | 0.9                                  | \$ 20.67                     |



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The table below presents stock option activity (in millions, except weighted-average exercise price).

|                                      | Stock Options | Weighted-Average Exercise Price |
|--------------------------------------|---------------|---------------------------------|
| Outstanding as of December 31, 2015  | 15.3          | \$ 24.01                        |
| Granted                              | 2.8           | \$ 25.61                        |
| Exercised                            | (3.1 )        | \$ 13.45                        |
| Forfeited                            | (0.9 )        | \$ 34.02                        |
| Outstanding as of September 30, 2016 | 14.1          |                                 |

The table below presents unrecognized compensation cost, net of expected forfeitures, related to non-vested equity-based awards and the weighted average amortization period over which these expenses will be recognized as of September 30, 2016 (in millions, except years).

|                                                                   | Unrecognized Compensation Cost, Net of Expected Forfeitures | Weighted Average Amortization Period (years) |
|-------------------------------------------------------------------|-------------------------------------------------------------|----------------------------------------------|
| RSUs                                                              | \$ 49                                                       | 3.0                                          |
| PRSUs                                                             | 32                                                          | 1.0                                          |
| Stock options                                                     | 33                                                          | 2.3                                          |
| SARs                                                              | 9                                                           | 1.1                                          |
| Total unrecognized compensation cost, net of expected forfeitures | \$ 123                                                      |                                              |

NOTE 11. INCOME TAXES

The Company's income tax expense was \$96 million and \$302 million, and the effective income tax rates were 30% and 25%, for the three and nine months ended September 30, 2016, respectively. The Company's income tax expense was \$130 million and \$394 million, and the effective income tax rates were 31% and 32%, for the three and nine months ended September 30, 2015, respectively. The following table reconciles the Company's effective income tax rate to the U.S. federal statutory income tax rate of 35%.

|                                                          | Three Months Ended September 30, 2016 |       | Nine Months Ended September 30, 2015 |       |
|----------------------------------------------------------|---------------------------------------|-------|--------------------------------------|-------|
| U.S. federal statutory income tax rate                   | 35 %                                  | 35 %  | 35 %                                 | 35 %  |
| State and local income taxes, net of federal tax benefit | 1 %                                   | 1 %   | (4 )%                                | 2 %   |
| Effect of foreign operations                             | (5 )%                                 | — %   | (4 )%                                | — %   |
| Domestic production activity deductions                  | (1 )%                                 | (1 )% | (3 )%                                | (3 )% |
| Change in uncertain tax positions                        | — %                                   | (3 )% | 1 %                                  | (2 )% |
| Other, net                                               | — %                                   | (1 )% | — %                                  | — %   |
| Effective income tax rate                                | 30 %                                  | 31 %  | 25 %                                 | 32 %  |

The Company and its subsidiaries file income tax returns in the U.S. and various state and foreign jurisdictions. The Company is currently under limited issue examination by the IRS for its 2008 to 2011 tax years and under audit for its

2012 to 2014 consolidated federal income tax returns. As it is difficult to predict the final outcome of any particular tax matter, an estimate of any related impact to the reserve for uncertain tax positions cannot currently be determined. With few exceptions, the Company is no longer subject to audit by any jurisdiction for years prior to 2006. Adjustments that arose as the audits for certain tax years were completed have been included in change in uncertain tax positions in the table above.

During the nine months ended September 30, 2016, the Company resolved multi-year state tax positions that resulted in a reduction of reserves related to uncertain tax positions. The effect is included within the effective tax rate reconciliation as a component of changes in state and local income taxes, net of federal tax benefit. The Company's reserves for uncertain tax

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positions at September 30, 2016 and December 31, 2015 totaled \$149 million and \$173 million, respectively. It is reasonably possible that the total amount of unrecognized tax benefits related to certain of the Company's uncertain tax positions could decrease by as much as \$31 million within the next twelve months as a result of ongoing audits, lapses of statutes of limitations or regulatory developments.

As of September 30, 2016 and December 31, 2015, the Company had accrued approximately \$15 million and \$20 million of total interest and penalties payable related to unrecognized tax benefits, respectively. The Company recognizes interest and penalties related to unrecognized tax benefits as a component of income tax expense.

NOTE 12. EARNINGS PER SHARE

In calculating earnings per share, the Company follows the two-class method, which distinguishes between the classes of securities based on the proportionate participation rights of each security type in the Company's undistributed income. The Company's Series A, B and C common stock and the Series C convertible preferred stock are treated as one class for purposes of applying the two-class method, because they have substantially equal rights and share equally on an as-converted basis with respect to income available to Discovery Communications, Inc.

The table below sets forth the computation for income available to Discovery Communications, Inc. stockholders (in millions).

|                                                                                                                                                                | Three Months Ended September 30, |       | Nine Months Ended September 30, |        |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|-------|---------------------------------|--------|
|                                                                                                                                                                | 2016                             | 2015  | 2016                            | 2015   |
| Numerator:                                                                                                                                                     |                                  |       |                                 |        |
| Net income                                                                                                                                                     | \$225                            | \$283 | \$909                           | \$822  |
| Less:                                                                                                                                                          |                                  |       |                                 |        |
| Allocation of undistributed income to Series A convertible preferred stock                                                                                     | (52 )                            | (61 ) | (205 )                          | (176 ) |
| Net income attributable to noncontrolling interests                                                                                                            | —                                | —     | (1 )                            | —      |
| Net income attributable to redeemable noncontrolling interests                                                                                                 | (6 )                             | (4 )  | (18 )                           | (7 )   |
| Net income available to Discovery Communications, Inc. Series A, B and C common and Series C convertible preferred stockholders for basic net income per share | \$167                            | \$218 | \$685                           | \$639  |

Allocation of net income available to Discovery Communications Inc. Series A, B and C common stockholders and Series C convertible preferred stockholders for basic net income per share:

|                                                                                                                               |       |       |       |       |
|-------------------------------------------------------------------------------------------------------------------------------|-------|-------|-------|-------|
| Series A, B and C common stockholders                                                                                         | 144   | 185   | 587   | 541   |
| Series C convertible preferred stockholders                                                                                   | 23    | 33    | 98    | 98    |
| Total                                                                                                                         | 167   | 218   | 685   | 639   |
| Add:                                                                                                                          |       |       |       |       |
| Allocation of undistributed income to Series A convertible preferred stockholders                                             | 52    | 61    | 205   | 176   |
| Net income available to Discovery Communications, Inc. Series A, B and C common stockholders for diluted net income per share | \$219 | \$279 | \$890 | \$815 |

Net income available to Discovery Communications, Inc. Series C convertible preferred stockholders for diluted net income per share is included in net income available to Discovery Communications, Inc. Series A, B and C common stockholders for diluted net income per share. For the three months ended September 30, 2016 and 2015, net income available to Discovery Communications, Inc. Series C convertible preferred stockholders for diluted net income per share was \$23 million and \$33 million, respectively. For the nine months ended September 30, 2016 and 2015, net

income available to Discovery Communications, Inc. Series C convertible preferred stockholders for diluted net income per share was \$97 million and \$97 million, respectively.

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The table below sets forth the weighted average number of shares outstanding utilized in determining the denominator for basic and diluted earnings per share (in millions).

|                                                                        | Three<br>Months<br>Ended<br>September<br>30,<br>2016 |     | Nine<br>Months<br>Ended<br>September<br>30,<br>2015 |     |
|------------------------------------------------------------------------|------------------------------------------------------|-----|-----------------------------------------------------|-----|
| Denominator:                                                           |                                                      |     |                                                     |     |
| Weighted average Series A, B and C common shares outstanding — basic   | 395                                                  | 432 | 404                                                 | 434 |
| Weighted average impact of assumed preferred stock conversion          | 204                                                  | 217 | 208                                                 | 220 |
| Weighted average dilutive effect of equity-based awards                | 3                                                    | 4   | 3                                                   | 4   |
| Weighted average Series A, B and C common shares outstanding — diluted | 602                                                  | 653 | 615                                                 | 658 |

Weighted average Series C convertible preferred stock outstanding — basic and diluted 31 38 34 39  
The weighted average number of diluted shares outstanding adjusts the weighted average number of shares of Series A, B and C common stock outstanding for the potential dilution that would occur if common stock equivalents, including convertible preferred stock and equity-based awards, were converted into common stock or exercised, calculated using the treasury stock method. Series A, B and C diluted common stock includes the impact of the conversion of Series A preferred stock, the impact of the conversion of Series C preferred stock, and the impact of equity-based compensation.

The table below sets forth the Company's calculated earnings per share.

|                                                                                                                                                  | Three<br>Months<br>Ended<br>September<br>30,<br>2016 |        | Nine<br>Months<br>Ended<br>September<br>30,<br>2015 |        |
|--------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------|--------|-----------------------------------------------------|--------|
| Basic net income per share available to Discovery Communications, Inc. Series A, B and C common and Series C convertible preferred stockholders: |                                                      |        |                                                     |        |
| Series A, B and C common stockholders                                                                                                            | \$0.37                                               | \$0.43 | \$1.45                                              | \$1.25 |
| Series C convertible preferred stockholders                                                                                                      | \$0.74                                               | \$0.86 | \$2.90                                              | \$2.50 |

Diluted net income per share available to Discovery Communications, Inc. Series A, B and C common and Series C convertible preferred stockholders:

|                                             |        |        |        |        |
|---------------------------------------------|--------|--------|--------|--------|
| Series A, B and C common stockholders       | \$0.36 | \$0.43 | \$1.44 | \$1.24 |
| Series C convertible preferred stockholders | \$0.72 | \$0.86 | \$2.88 | \$2.48 |

Series C convertible preferred earnings per share amounts may not recalculate due to rounding. The computation of the diluted earnings per share of Series A, B and C common stockholders assumes the conversion of Series A and C convertible preferred stock, while the diluted earnings per share amounts of Series C convertible preferred stock does not assume conversion of those shares.

The table below presents the details of the anticipated stock repurchases and equity-based awards that were excluded from the calculation of diluted earnings per share (in millions).

| Three<br>Months | Nine<br>Months |
|-----------------|----------------|
|-----------------|----------------|

|                                                                       | Ended<br>September<br>30, |      | Ended<br>September<br>30, |      |
|-----------------------------------------------------------------------|---------------------------|------|---------------------------|------|
|                                                                       | 2016                      | 2015 | 2016                      | 2015 |
| Anti-dilutive stock options and RSUs                                  | 9                         | 6    | 8                         | 6    |
| PRSUs whose performance targets have not been achieved                | 4                         | 3    | 3                         | 3    |
| Anti-dilutive common stock repurchase contracts (See Note 9.)         | 3                         | —    | 3                         | —    |
| Anti-dilutive preferred stock repurchase and conversion (See Note 9.) | 2                         | —    | 2                         | —    |

Only outstanding PRSUs whose performance targets have been achieved as of the last day of the most recent period are included in the dilutive effect calculation.

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NOTE 13. SUPPLEMENTAL DISCLOSURES

The following tables present supplemental information related to the consolidated financial statements (in millions).

Accrued Liabilities

|                                                          | September 30, December 31, |        |
|----------------------------------------------------------|----------------------------|--------|
|                                                          | 2016                       | 2015   |
| Accrued payroll and related benefits                     | \$ 438                     | \$ 449 |
| Content rights payable                                   | 176                        | 217    |
| Accrued interest                                         | 108                        | 61     |
| Accrued income taxes                                     | 36                         | 30     |
| Current portion of equity-based compensation liabilities | 27                         | 5      |
| Other accrued liabilities                                | 260                        | 226    |
| Total accrued liabilities                                | \$ 1,045                   | \$ 988 |

Other Expense, net

|                                                       | Three Months Ended September 30, |       | Nine Months Ended September 30, |        |
|-------------------------------------------------------|----------------------------------|-------|---------------------------------|--------|
|                                                       | 2016                             | 2015  | 2016                            | 2015   |
| Foreign currency gains (losses), net                  | \$15                             | \$(6) | \$52                            | \$(73) |
| (Losses) gains on derivative instruments              | (1 )                             | 8     | (16 )                           | (3 )   |
| Remeasurement gain on previously held equity interest | —                                | —     | —                               | 2      |
| Other expense, net:                                   |                                  |       |                                 |        |
| Other-than-temporary impairment of AFS investments    | (62 )                            | —     | (62 )                           | —      |
| Other                                                 | (1 )                             | (2 )  | (1 )                            | (4 )   |
| Other expense, net                                    | \$(63)                           | \$(2) | \$(63)                          | \$(4 ) |
| Total other expense, net                              | \$(49)                           | \$—   | \$(27)                          | \$(78) |

Equity-Based Plan Proceeds, Net

|                                                                              | Nine Months Ended September 30, |        |
|------------------------------------------------------------------------------|---------------------------------|--------|
|                                                                              | 2016                            | 2015   |
| Tax settlements associated with equity-based plans                           | \$(11)                          | \$(27) |
| Excess tax benefits from equity-based compensation                           | 7                               | 6      |
| Proceeds from issuance of common stock in connection with equity-based plans | 36                              | 12     |
| Total equity-based plan proceeds (payments), net                             | \$32                            | \$(9 ) |

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## Supplemental Cash Flow Information

|                                                                 | Nine<br>Months<br>Ended<br>September<br>30,<br>2016 | 2015  |
|-----------------------------------------------------------------|-----------------------------------------------------|-------|
| Cash paid for taxes, net                                        | \$427                                               | \$609 |
| Cash paid for interest, net                                     | 207                                                 | 188   |
| Noncash investing and financing activities:                     |                                                     |       |
| Mandatorily redeemable equity (see Note 8)                      | —                                                   | 551   |
| Contingent consideration obligations from business acquisitions | —                                                   | 9     |
| Contingent consideration receivable from business dispositions  | —                                                   | 19    |
| Receivables for exercised/unsettled incentive stock options     | 9                                                   | —     |
| Accrued purchases of property and equipment                     | 7                                                   | 13    |
| Assets acquired under capital lease arrangements                | 23                                                  | 2     |

## NOTE 14. RELATED PARTY TRANSACTIONS

In the normal course of business, the Company enters into transactions with related parties. Related parties include entities that share common directorship, such as Liberty Global plc ("Liberty Global"), Liberty Broadband Corporation ("Liberty Broadband") and their subsidiaries and equity method investees (together the "Liberty Group"). Discovery's Board of Directors includes Mr. Malone, who is Chairman of the Board of Liberty Global and beneficially owns approximately 24% of the aggregate voting power with respect to the election of directors of Liberty Global. Mr. Malone is also Chairman of the Board of Liberty Broadband and beneficially owns approximately 46% of the aggregate voting power with respect to the election of directors of Liberty Broadband. The majority of the revenue earned from the Liberty Group relates to multi-year network distribution arrangements. Related party transactions also include revenues and expenses for content and services provided to or acquired from equity method investees, such as OWN, All3Media and the New Russian Business, or minority partners of consolidated subsidiaries, such as Hasbro. The table below presents a summary of the transactions with related parties (in millions).

|                                    | Three<br>Months<br>Ended<br>September<br>30,<br>2016 |        | Nine Months<br>Ended<br>September<br>30,<br>2015 |        |
|------------------------------------|------------------------------------------------------|--------|--------------------------------------------------|--------|
| Revenues and service charges:      |                                                      |        |                                                  |        |
| Liberty Group <sup>(a)</sup>       | \$116                                                | \$40   | \$259                                            | \$120  |
| Equity method investees            | 34                                                   | 12     | 91                                               | 44     |
| Other                              | 7                                                    | 10     | 26                                               | 27     |
| Total revenues and service charges | \$157                                                | \$62   | \$376                                            | \$191  |
| Interest income <sup>(b)</sup>     | \$4                                                  | \$5    | \$13                                             | \$18   |
| Expenses                           | \$(25)                                               | \$(12) | \$(85)                                           | \$(43) |

(a) The increase for the three and nine months ended September 30, 2016, includes the May 2016 acquisition of Time Warner Cable, Inc. by Charter Communications, an equity method investee of the Liberty Group and other changes in Liberty Group's businesses.

(b) The Company records interest earnings from loans to equity method investees, such as OWN, as a component of income from equity investees, net, in the consolidated statements of operations. (See Note 3.)

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The table below presents receivables due from related parties (in millions).

|                            | September 30, December 31, |       |
|----------------------------|----------------------------|-------|
|                            | 2016                       | 2015  |
| Receivables <sup>(a)</sup> | \$ 112                     | \$ 37 |
| Note receivable (Note 3)   | 326                        | 384   |

<sup>(a)</sup> The increase for the three and nine months ended September 30, 2016, includes the May 2016 acquisition of Time Warner Cable Inc. by Charter Communications, an equity method investee of the Liberty Group and other changes in Liberty Group's businesses.

NOTE 15. COMMITMENTS, CONTINGENCIES, AND GUARANTEES

Commitments

In the normal course of business, the Company enters into various commitments, which primarily include programming and talent arrangements, operating and capital leases, employment contracts, arrangements to purchase various goods and services, future funding commitments to equity method investees, and the conditional obligation to issue or acquire additional shares of preferred stock. (See Note 9.)

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Contingencies

Put Rights

The Company has granted put rights related to an equity method investment and certain consolidated subsidiaries. Harpo has the right to require the Company to purchase all or part of its interest in OWN for fair value at various dates. No amounts have been recorded by the Company for the Harpo put right. (See Note 3.) Hasbro and J:COM have the right to require the Company to purchase their remaining noncontrolling interests in Discovery Family and Discovery Japan, respectively. The Company recorded the value of the put rights for Discovery Family and Discovery Japan as a component of redeemable equity in the amounts of \$216 million and \$31 million, respectively. (See Note 8.)

Legal Matters

The Company is party to various lawsuits and claims in the ordinary course of business, including claims related to employees, vendors, other business partners or patent issues. However, a determination as to the amount of the accrual required for such contingencies is highly subjective and requires judgment about future events. Although the outcome of these matters cannot be predicted with certainty and the impact of the final resolution of these matters on the Company's results of operations in a particular subsequent reporting period is not known, management does not believe that the resolution of these matters will have a material adverse effect on the Company's consolidated financial position, future results of operations or cash flows.

Guarantees

There were no guarantees recorded as of September 30, 2016 and December 31, 2015.

The Company may provide or receive indemnities intended to allocate business transaction risks. Similarly, the Company may remain contingently liable for certain obligations of a divested business in the event that a third party does not fulfill its obligations under an indemnification obligation. The Company records a liability for its indemnification obligations and other contingent liabilities when probable and estimable. There were no material amounts for indemnifications or other contingencies recorded as of September 30, 2016 and December 31, 2015.

NOTE 16. REPORTABLE SEGMENTS

The Company's operating segments are determined based on (i) financial information reviewed by its chief operating decision maker ("CODM"), the Chief Executive Officer ("CEO"), (ii) internal management and related reporting structure, and (iii) the basis upon which the CEO makes resource allocation decisions.

The accounting policies of the reportable segments are the same as the Company's, except that certain inter-segment transactions that are eliminated for consolidation are not eliminated at the segment level. Inter-segment transactions primarily include advertising and content purchases.

The Company evaluates the operating performance of its segments based on financial measures such as revenues and adjusted operating income before depreciation and amortization ("Adjusted OIBDA"). Adjusted OIBDA is defined as operating income excluding: (i) mark-to-market equity-based compensation, (ii) depreciation and amortization, (iii) amortization of deferred launch incentives, (iv) restructuring and other charges, (v) certain impairment charges, (vi) gains and losses on business and asset dispositions, and (vii) certain inter-segment eliminations related to production studios. The Company uses this measure to assess the operating results and performance of its segments, perform analytical comparisons, identify strategies to improve performance and allocate resources to each segment. The Company believes Adjusted OIBDA is relevant to investors because it allows them to analyze the operating performance of each segment using the same metric management uses. The Company excludes mark-to-market equity-based compensation, restructuring and other charges, certain impairment charges, and gains and losses on business and asset dispositions from the calculation of Adjusted OIBDA due to their volatility. The Company also excludes depreciation of fixed assets, amortization of intangible assets and deferred launch incentives, as these amounts do not represent cash payments in the current reporting period. Certain corporate expenses are excluded from segment results to enable executive management to evaluate segment performance based upon the decisions of

segment executives. Adjusted OIBDA should be considered in addition to, but not a substitute for, operating income, net income and other measures of financial performance reported in accordance with GAAP. The tables below present summarized financial information for each of the Company's reportable segments, other operating segments and corporate and inter-segment eliminations (in millions).

DISCOVERY COMMUNICATIONS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

## Revenues by Segment

|                                          | Three Months<br>Ended<br>September 30,<br>2016 |         | Nine Months<br>Ended<br>September 30,<br>2016 |         |
|------------------------------------------|------------------------------------------------|---------|-----------------------------------------------|---------|
|                                          | 2015                                           |         | 2015                                          |         |
| U.S. Networks                            | \$793                                          | \$781   | \$2,473                                       | \$2,344 |
| International Networks                   | 720                                            | 740     | 2,221                                         | 2,276   |
| Education and Other                      | 43                                             | 36      | 133                                           | 130     |
| Corporate and inter-segment eliminations | —                                              | —       | (2 )                                          | (2 )    |
| Total revenues                           | \$1,556                                        | \$1,557 | \$4,825                                       | \$4,748 |
| Adjusted OIBDA by Segment                |                                                |         |                                               |         |

|                                          | Three<br>Months<br>Ended<br>September<br>30,<br>2016 |       | Nine Months<br>Ended<br>September 30,<br>2016 |         |
|------------------------------------------|------------------------------------------------------|-------|-----------------------------------------------|---------|
|                                          | 2015                                                 |       | 2015                                          |         |
| U.S. Networks                            | \$458                                                | \$443 | \$1,475                                       | \$1,364 |
| International Networks                   | 183                                                  | 218   | 617                                           | 699     |
| Education and Other                      | (1 )                                                 | (5 )  | (5 )                                          | (2 )    |
| Corporate and inter-segment eliminations | (78 )                                                | (80 ) | (242 )                                        | (237 )  |
| Total Adjusted OIBDA                     | \$562                                                | \$576 | \$1,845                                       | \$1,824 |

## Reconciliation of Total Adjusted OIBDA to Net Income available to Discovery Communications, Inc.

|                                                                | Three<br>Months<br>Ended<br>September<br>30,<br>2016 |        | Nine Months<br>Ended<br>September 30,<br>2016 |         |
|----------------------------------------------------------------|------------------------------------------------------|--------|-----------------------------------------------|---------|
|                                                                | 2015                                                 |        | 2015                                          |         |
| Total Adjusted OIBDA                                           | \$562                                                | \$576  | \$1,845                                       | \$1,824 |
| Amortization of deferred launch incentives                     | (3 )                                                 | (4 )   | (10 )                                         | (12 )   |
| Mark-to-market equity-based compensation                       | (14 )                                                | 17     | (24 )                                         | 9       |
| Depreciation and amortization                                  | (80 )                                                | (80 )  | (239 )                                        | (243 )  |
| Restructuring and other charges                                | (7 )                                                 | (4 )   | (52 )                                         | (37 )   |
| Gain on disposition                                            | —                                                    | —      | 13                                            | 3       |
| Operating income                                               | \$458                                                | \$505  | \$1,533                                       | \$1,544 |
| Interest expense                                               | (91 )                                                | (82 )  | (267 )                                        | (248 )  |
| Income (loss) from equity investees, net                       | 3                                                    | (10 )  | (28 )                                         | (2 )    |
| Other expense, net                                             | (49 )                                                | —      | (27 )                                         | (78 )   |
| Income before income taxes                                     | \$321                                                | \$413  | \$1,211                                       | \$1,216 |
| Income tax expense                                             | (96 )                                                | (130 ) | (302 )                                        | (394 )  |
| Net income attributable to noncontrolling interests            | —                                                    | —      | (1 )                                          | —       |
| Net income attributable to redeemable noncontrolling interests | (6 )                                                 | (4 )   | (18 )                                         | (7 )    |
| Net income available to Discovery Communications, Inc.         | \$219                                                | \$279  | \$890                                         | \$815   |



DISCOVERY COMMUNICATIONS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

Total Assets by Segment

|                                          | September 30, December 31, |           |
|------------------------------------------|----------------------------|-----------|
|                                          | 2016                       | 2015      |
| U.S. Networks                            | \$ 3,274                   | \$ 3,295  |
| International Networks                   | 5,176                      | 5,151     |
| Education and Other                      | 416                        | 520       |
| Corporate and inter-segment eliminations | 6,984                      | 6,898     |
| Total assets                             | \$ 15,850                  | \$ 15,864 |

Total assets for corporate and inter-segment eliminations include goodwill that is allocated to the Company's segments to account for goodwill. The presentation of segment assets in the table above is consistent with the financial reports that are reviewed by the Company's CEO.

NOTE 17. RESTRUCTURING AND OTHER CHARGES

Restructuring and other charges, by segment were as follows (in millions).

|                                       | Three Months Ended September 30, |      | Nine Months Ended September 30, |       |
|---------------------------------------|----------------------------------|------|---------------------------------|-------|
|                                       | 2016                             | 2015 | 2016                            | 2015  |
| U.S. Networks                         | \$ 2                             | \$ — | \$ 10                           | \$ 22 |
| International Networks                | 5                                | 3    | 25                              | 13    |
| Education and Other                   | —                                | 2    | 3                               | 2     |
| Corporate                             | —                                | (1)  | 14                              | —     |
| Total restructuring and other charges | \$ 7                             | \$ 4 | \$ 52                           | \$ 37 |

|                                       | Three Months Ended September 30, |      | Nine Months Ended September 30, |       |
|---------------------------------------|----------------------------------|------|---------------------------------|-------|
|                                       | 2016                             | 2015 | 2016                            | 2015  |
| Restructuring charges                 | \$ 4                             | \$ 4 | \$ 53                           | \$ 16 |
| Other                                 | 3                                | —    | (1)                             | 21    |
| Total restructuring and other charges | \$ 7                             | \$ 4 | \$ 52                           | \$ 37 |

Restructuring charges relate to management changes, cost reduction efforts and contract terminations. On April 28, 2016, the Company committed to a cost-savings plan that encompasses a series of actions intended to enable the Company to more efficiently operate in a leaner and more directed cost structure and invest in growth initiatives, including digital services and content creation. The cost-savings plan includes significant employee terminations. Other charges during 2016 and 2015 result from content impairments primarily at the Company's U.S. Networks segment due to the cancellation of certain high profile series as a result of legal circumstances pertaining to the associated talent.

Restructuring and other charges of \$45 million and \$2 million are recorded in accrued liabilities and other noncurrent liabilities, respectively, on the consolidated balance sheet. Changes in restructuring and other liabilities by major category were as follows (in millions).

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|                    | Contract<br>Terminations | Employee<br>Terminations | Total |
|--------------------|--------------------------|--------------------------|-------|
| December 31, 2015  | \$ 2                     | \$ 21                    | \$23  |
| Net Accruals       | —                        | 53                       | 53    |
| Cash Paid          | (2 )                     | (27 )                    | (29 ) |
| September 30, 2016 | \$ —                     | \$ 47                    | \$47  |

DISCOVERY COMMUNICATIONS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

NOTE 18. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

Overview

As of September 30, 2016 and December 31, 2015, all of the outstanding senior notes have been issued by DCL, a wholly owned subsidiary of the Company, pursuant to one or more Registration Statements on Form S-3 filed with the U.S. Securities and Exchange Commission ("SEC"). (See Note 6.) The Company fully and unconditionally guarantees the senior notes on an unsecured basis. Each of the Company, DCL, and/or Discovery Communications Holding LLC ("DCH") (collectively the "Issuers") may issue additional debt securities under the Company's current Registration Statement on Form S-3 that are fully and unconditionally guaranteed by the other Issuers.

Set forth below are condensed consolidating financial statements presenting the financial position, results of operations and comprehensive income and cash flows of (i) the Company, (ii) DCH, (iii) DCL, (iv) the non-guarantor subsidiaries of DCL on a combined basis, (v) the other non-guarantor subsidiaries of the Company on a combined basis, and (vi) reclassifications and eliminations necessary to arrive at the consolidated financial statement balances for the Company. DCL and the non-guarantor subsidiaries of DCL are the primary operating subsidiaries of the Company. DCL primarily includes the Discovery Channel and TLC networks in the U.S. The non-guarantor subsidiaries of DCL include substantially all of the Company's other U.S. and international networks, education businesses, production companies, and most of the Company's websites and digital distribution arrangements. The non-guarantor subsidiaries of DCL are wholly owned subsidiaries of DCL with the exception of certain equity method investments. DCL is a wholly owned subsidiary of DCH. The Company wholly owns DCH through a 33 1/3% direct ownership interest and a 66 2/3% indirect ownership interest through Discovery Holding Company ("DHC"), a wholly owned subsidiary of the Company. DHC is included in the other non-guarantor subsidiaries of the Company.

Basis of Presentation

Solely for purposes of presenting the condensed consolidating financial statements, investments in the Company's subsidiaries have been accounted for by their respective parent company using the equity method. Accordingly, in the following condensed consolidating financial statements the equity method has been applied to (i) the Company's interests in DCH and the other non-guarantor subsidiaries of the Company, (ii) DCH's interest in DCL, and (iii) DCL's interests in the non-guarantor subsidiaries of DCL. Inter-company accounts and transactions have been eliminated to arrive at the consolidated financial statement amounts for the Company. The Company's accounting bases in all subsidiaries, including goodwill and recognized intangible assets, have been "pushed down" to the applicable subsidiaries.

The operations of certain of the Company's international subsidiaries are excluded from the Company's consolidated U.S. income tax return. Tax expense related to permanent differences has been allocated to the entity that created the difference. Tax expense related to temporary differences has been allocated to the entity that created the difference, where identifiable. The remaining temporary differences are allocated to each entity included in the Company's consolidated U.S. income tax return based on each entity's relative pretax income. Deferred taxes have been allocated based upon the temporary differences between the carrying amounts of the respective assets and liabilities of the applicable entities.

The condensed consolidating financial statements should be read in conjunction with the consolidated financial statements of the Company.

DISCOVERY COMMUNICATIONS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

Condensed Consolidating Balance Sheet  
September 30, 2016  
(in millions)

|                                            | Discovery | DCH     | DCL      | Non-Guarantor<br>Subsidiaries of<br>DCL | Other Non-<br>Guarantor<br>Subsidiaries of<br>Discovery | Reclassification<br>and<br>Eliminations | Discovery<br>and<br>Subsidiaries |
|--------------------------------------------|-----------|---------|----------|-----------------------------------------|---------------------------------------------------------|-----------------------------------------|----------------------------------|
| <b>ASSETS</b>                              |           |         |          |                                         |                                                         |                                         |                                  |
| Current assets:                            |           |         |          |                                         |                                                         |                                         |                                  |
| Cash and cash equivalents                  | \$ —      | \$—     | \$8      | \$ 216                                  | \$ —                                                    | \$ —                                    | \$ 224                           |
| Receivables, net                           | —         | —       | 433      | 1,112                                   | —                                                       | —                                       | 1,545                            |
| Content rights, net                        | —         | —       | 10       | 340                                     | —                                                       | —                                       | 350                              |
| Deferred income taxes                      | —         | —       | 41       | 69                                      | —                                                       | —                                       | 110                              |
| Prepaid expenses and other current assets  | 76        | 46      | 205      | 127                                     | —                                                       | —                                       | 454                              |
| Inter-company trade receivables, net       | —         | —       | 160      | —                                       | —                                                       | (160                                    | ) —                              |
| Total current assets                       | 76        | 46      | 857      | 1,864                                   | —                                                       | (160                                    | ) 2,683                          |
| Investment in and advances to subsidiaries | 5,130     | 5,084   | 7,598    | —                                       | 3,433                                                   | (21,245                                 | ) —                              |
| Noncurrent content rights, net             | —         | —       | 656      | 1,461                                   | —                                                       | —                                       | 2,117                            |
| Goodwill                                   | —         | —       | 3,769    | 4,410                                   | —                                                       | —                                       | 8,179                            |
| Intangible assets, net                     | —         | —       | 278      | 1,343                                   | —                                                       | —                                       | 1,621                            |
| Equity method investments                  | —         | —       | 25       | 490                                     | —                                                       | —                                       | 515                              |
| Other noncurrent assets                    | —         | 20      | 104      | 631                                     | —                                                       | (20                                     | ) 735                            |
| Total assets                               | \$ 5,206  | \$5,150 | \$13,287 | \$ 10,199                               | \$ 3,433                                                | \$ (21,425                              | ) \$ 15,850                      |
| <b>LIABILITIES AND EQUITY</b>              |           |         |          |                                         |                                                         |                                         |                                  |
| Current liabilities:                       |           |         |          |                                         |                                                         |                                         |                                  |
| Current portion of debt                    | \$ —      | \$—     | \$75     | \$ 20                                   | \$ —                                                    | \$ —                                    | \$ 95                            |
| Other current liabilities                  | —         | —       | 505      | 922                                     | —                                                       | —                                       | 1,427                            |
| Inter-company trade payables, net          | —         | —       | —        | 160                                     | —                                                       | (160                                    | ) —                              |
| Total current liabilities                  | —         | —       | 580      | 1,102                                   | —                                                       | (160                                    | ) 1,522                          |
| Noncurrent portion of debt                 | —         | —       | 7,270    | 631                                     | —                                                       | —                                       | 7,901                            |
| Other noncurrent liabilities               | 2         | —       | 353      | 621                                     | 20                                                      | (20                                     | ) 976                            |
| Total liabilities                          | 2         | —       | 8,203    | 2,354                                   | 20                                                      | (180                                    | ) 10,399                         |
| Redeemable noncontrolling interests        | —         | —       | —        | 247                                     | —                                                       | —                                       | 247                              |
| Total equity                               | 5,204     | 5,150   | 5,084    | 7,598                                   | 3,413                                                   | (21,245                                 | ) 5,204                          |
| Total liabilities and equity               | \$ 5,206  | \$5,150 | \$13,287 | \$ 10,199                               | \$ 3,433                                                | \$ (21,425                              | ) \$ 15,850                      |

DISCOVERY COMMUNICATIONS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

Condensed Consolidating Balance Sheet  
December 31, 2015  
(in millions)

|                                            | Discovery | DCH     | DCL      | Non-Guarantor<br>Subsidiaries of<br>DCL | Other Non-<br>Guarantor<br>Subsidiaries of<br>Discovery | Reclassifications<br>and<br>Eliminations | Discovery<br>and<br>Subsidiaries |
|--------------------------------------------|-----------|---------|----------|-----------------------------------------|---------------------------------------------------------|------------------------------------------|----------------------------------|
| <b>ASSETS</b>                              |           |         |          |                                         |                                                         |                                          |                                  |
| Current assets:                            |           |         |          |                                         |                                                         |                                          |                                  |
| Cash and cash equivalents                  | \$ —      | \$—     | \$3      | \$ 387                                  | \$ —                                                    | \$ —                                     | \$ 390                           |
| Receivables, net                           | —         | —       | 435      | 1,044                                   | —                                                       | —                                        | 1,479                            |
| Content rights, net                        | —         | —       | 9        | 304                                     | —                                                       | —                                        | 313                              |
| Deferred income taxes                      | —         | —       | 36       | 32                                      | —                                                       | —                                        | 68                               |
| Prepaid expenses and other current assets  | 47        | 26      | 163      | 110                                     | —                                                       | —                                        | 346                              |
| Inter-company trade receivables, net       | —         | —       | 74       | —                                       | —                                                       | (74                                      | ) —                              |
| Total current assets                       | 47        | 26      | 720      | 1,877                                   | —                                                       | (74                                      | ) 2,596                          |
| Investment in and advances to subsidiaries | 5,406     | 5,381   | 7,539    | —                                       | 3,618                                                   | (21,944                                  | ) —                              |
| Noncurrent content rights, net             | —         | —       | 601      | 1,429                                   | —                                                       | —                                        | 2,030                            |
| Goodwill                                   | —         | —       | 3,769    | 4,395                                   | —                                                       | —                                        | 8,164                            |
| Intangible assets, net                     | —         | —       | 290      | 1,440                                   | —                                                       | —                                        | 1,730                            |
| Equity method investments                  | —         | —       | 25       | 542                                     | —                                                       | —                                        | 567                              |
| Other noncurrent assets                    | —         | 20      | 103      | 674                                     | —                                                       | (20                                      | ) 777                            |
| Total assets                               | \$ 5,453  | \$5,427 | \$13,047 | \$ 10,357                               | \$ 3,618                                                | \$ (22,038                               | ) \$ 15,864                      |
| <b>LIABILITIES AND EQUITY</b>              |           |         |          |                                         |                                                         |                                          |                                  |
| Current liabilities:                       |           |         |          |                                         |                                                         |                                          |                                  |
| Current portion of debt                    | \$ —      | \$—     | \$98     | \$ 21                                   | \$ —                                                    | \$ —                                     | \$ 119                           |
| Other current liabilities                  | —         | —       | 470      | 990                                     | —                                                       | —                                        | 1,460                            |
| Inter-company trade payables, net          | —         | —       | —        | 74                                      | —                                                       | (74                                      | ) —                              |
| Total current liabilities                  | —         | —       | 568      | 1,085                                   | —                                                       | (74                                      | ) 1,579                          |
| Noncurrent portion of debt                 | —         | —       | 6,724    | 892                                     | —                                                       | —                                        | 7,616                            |
| Other noncurrent liabilities               | 2         | —       | 374      | 600                                     | 21                                                      | (20                                      | ) 977                            |
| Total liabilities                          | 2         | —       | 7,666    | 2,577                                   | 21                                                      | (94                                      | ) 10,172                         |
| Redeemable noncontrolling interests        | —         | —       | —        | 241                                     | —                                                       | —                                        | 241                              |
| Total equity                               | 5,451     | 5,427   | 5,381    | 7,539                                   | 3,597                                                   | (21,944                                  | ) 5,451                          |
| Total liabilities and equity               | \$ 5,453  | \$5,427 | \$13,047 | \$ 10,357                               | \$ 3,618                                                | \$ (22,038                               | ) \$ 15,864                      |

DISCOVERY COMMUNICATIONS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

Condensed Consolidating Statement of Operations  
Three Months Ended September 30, 2016  
(in millions)

|                                                                | Discovery | DCH    | DCL    | Non-Guarantor<br>Subsidiaries<br>DCL | Other<br>Non-Guarantor<br>Subsidiaries<br>Discovery | Reclassification<br>and<br>Eliminations | Discovery<br>and<br>Subsidiaries |
|----------------------------------------------------------------|-----------|--------|--------|--------------------------------------|-----------------------------------------------------|-----------------------------------------|----------------------------------|
| Revenues                                                       | \$ —      | \$ —   | \$ 471 | \$ 1,088                             | \$ —                                                | \$ (3 )                                 | \$ 1,556                         |
| Costs of revenues, excluding depreciation and amortization     | —         | —      | 109    | 484                                  | —                                                   | (1 )                                    | 592                              |
| Selling, general and administrative                            | 3         | —      | 82     | 336                                  | —                                                   | (2 )                                    | 419                              |
| Depreciation and amortization                                  | —         | —      | 9      | 71                                   | —                                                   | —                                       | 80                               |
| Restructuring and other charges                                | —         | —      | —      | 7                                    | —                                                   | —                                       | 7                                |
| Total costs and expenses                                       | 3         | —      | 200    | 898                                  | —                                                   | (3 )                                    | 1,098                            |
| Operating (loss) income                                        | (3 )      | —      | 271    | 190                                  | —                                                   | —                                       | 458                              |
| Equity in earnings of subsidiaries                             | 221       | 221    | 108    | —                                    | 147                                                 | (697 )                                  | —                                |
| Interest expense                                               | —         | —      | (86 )  | (5 )                                 | —                                                   | —                                       | (91 )                            |
| Income from equity investees, net                              | —         | —      | 3      | —                                    | —                                                   | —                                       | 3                                |
| Other expense, net                                             | —         | —      | (13 )  | (36 )                                | —                                                   | —                                       | (49 )                            |
| Income before income taxes                                     | 218       | 221    | 283    | 149                                  | 147                                                 | (697 )                                  | 321                              |
| Income tax benefit (expense)                                   | 1         | —      | (62 )  | (35 )                                | —                                                   | —                                       | (96 )                            |
| Net income                                                     | 219       | 221    | 221    | 114                                  | 147                                                 | (697 )                                  | 225                              |
| Net income attributable to redeemable noncontrolling interests | —         | —      | —      | —                                    | —                                                   | (6 )                                    | (6 )                             |
| Net income available to Discovery Communications, Inc.         | \$ 219    | \$ 221 | \$ 221 | \$ 114                               | \$ 147                                              | \$ (703 )                               | \$ 219                           |

DISCOVERY COMMUNICATIONS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

Condensed Consolidating Statement of Operations  
Three Months Ended September 30, 2015  
(in millions)

|                                                                | Discovery | DCH   | DCL   | Non-Guarantor<br>Subsidiaries<br>DCL | Other<br>Non-Guarantor<br>Subsidiaries<br>Discovery | Reclassification<br>and<br>Eliminations | Discovery<br>and<br>Subsidiaries |
|----------------------------------------------------------------|-----------|-------|-------|--------------------------------------|-----------------------------------------------------|-----------------------------------------|----------------------------------|
| Revenues                                                       | \$ —      | \$ —  | \$478 | \$ 1,082                             | \$ —                                                | \$ (3 )                                 | \$ 1,557                         |
| Costs of revenues, excluding depreciation and amortization     | —         | —     | 159   | 417                                  | —                                                   | (2 )                                    | 574                              |
| Selling, general and administrative                            | 3         | —     | 63    | 329                                  | —                                                   | (1 )                                    | 394                              |
| Depreciation and amortization                                  | —         | —     | 10    | 70                                   | —                                                   | —                                       | 80                               |
| Restructuring and other charges                                | —         | —     | (1 )  | 5                                    | —                                                   | —                                       | 4                                |
| Total costs and expenses                                       | 3         | —     | 231   | 821                                  | —                                                   | (3 )                                    | 1,052                            |
| Operating (loss) income                                        | (3 )      | —     | 247   | 261                                  | —                                                   | —                                       | 505                              |
| Equity in earnings of subsidiaries                             | 281       | 281   | 171   | —                                    | 187                                                 | (920 )                                  | —                                |
| Interest expense                                               | —         | —     | (79 ) | (3 )                                 | —                                                   | —                                       | (82 )                            |
| Loss from equity investees, net                                | —         | —     | (2 )  | (8 )                                 | —                                                   | —                                       | (10 )                            |
| Other (expense) income, net                                    | —         | —     | (5 )  | 5                                    | —                                                   | —                                       | —                                |
| Income before income taxes                                     | 278       | 281   | 332   | 255                                  | 187                                                 | (920 )                                  | 413                              |
| Income tax benefit (expense)                                   | 1         | —     | (51 ) | (80 )                                | —                                                   | —                                       | (130 )                           |
| Net income                                                     | 279       | 281   | 281   | 175                                  | 187                                                 | (920 )                                  | 283                              |
| Net income attributable to redeemable noncontrolling interests | —         | —     | —     | —                                    | —                                                   | (4 )                                    | (4 )                             |
| Net income available to Discovery Communications, Inc.         | \$ 279    | \$281 | \$281 | \$ 175                               | \$ 187                                              | \$ (924 )                               | \$ 279                           |

DISCOVERY COMMUNICATIONS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

Condensed Consolidating Statement of Operations  
Nine Months Ended September 30, 2016  
(in millions)

|                                                                | Discovery | DCH    | DCL      | Non-Guarantor<br>Subsidiaries<br>DCL | Other<br>Non-Guarantor<br>Subsidiaries<br>Discovery | Reclassification<br>and<br>Eliminations | Discovery<br>and<br>Subsidiaries |
|----------------------------------------------------------------|-----------|--------|----------|--------------------------------------|-----------------------------------------------------|-----------------------------------------|----------------------------------|
| Revenues                                                       | \$ —      | \$ —   | \$ 1,473 | \$ 3,362                             | \$ —                                                | \$ (10 )                                | \$ 4,825                         |
| Costs of revenues, excluding depreciation and amortization     | —         | —      | 339      | 1,451                                | —                                                   | (3 )                                    | 1,787                            |
| Selling, general and administrative                            | 11        | —      | 211      | 1,012                                | —                                                   | (7 )                                    | 1,227                            |
| Depreciation and amortization                                  | —         | —      | 28       | 211                                  | —                                                   | —                                       | 239                              |
| Restructuring and other charges                                | —         | —      | 23       | 29                                   | —                                                   | —                                       | 52                               |
| Gain on disposition                                            | —         | —      | —        | (13 )                                | —                                                   | —                                       | (13 )                            |
| Total costs and expenses                                       | 11        | —      | 601      | 2,690                                | —                                                   | (10 )                                   | 3,292                            |
| Operating (loss) income                                        | (11 )     | —      | 872      | 672                                  | —                                                   | —                                       | 1,533                            |
| Equity in earnings of subsidiaries                             | 897       | 897    | 498      | —                                    | 598                                                 | (2,890 )                                | —                                |
| Interest expense                                               | —         | —      | (251 )   | (16 )                                | —                                                   | —                                       | (267 )                           |
| Loss from equity investees, net                                | —         | —      | (2 )     | (26 )                                | —                                                   | —                                       | (28 )                            |
| Other (expense) income, net                                    | —         | —      | (32 )    | 5                                    | —                                                   | —                                       | (27 )                            |
| Income before income taxes                                     | 886       | 897    | 1,085    | 635                                  | 598                                                 | (2,890 )                                | 1,211                            |
| Income tax benefit (expense)                                   | 4         | —      | (188 )   | (118 )                               | —                                                   | —                                       | (302 )                           |
| Net income                                                     | 890       | 897    | 897      | 517                                  | 598                                                 | (2,890 )                                | 909                              |
| Net income attributable to noncontrolling interests            | —         | —      | —        | —                                    | —                                                   | (1 )                                    | (1 )                             |
| Net income attributable to redeemable noncontrolling interests | —         | —      | —        | —                                    | —                                                   | (18 )                                   | (18 )                            |
| Net income available to Discovery Communications, Inc.         | \$ 890    | \$ 897 | \$ 897   | \$ 517                               | \$ 598                                              | \$ (2,909 )                             | \$ 890                           |

DISCOVERY COMMUNICATIONS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

Condensed Consolidating Statement of Operations  
Nine Months Ended September 30, 2015  
(in millions)

|                                                                | Discovery | DCH    | DCL      | Non-Guarantor<br>Subsidiaries<br>DCL | Other<br>Non-Guarantor<br>Subsidiaries<br>Discovery | Reclassification<br>and<br>Eliminations | Discovery<br>and<br>Subsidiaries |   |
|----------------------------------------------------------------|-----------|--------|----------|--------------------------------------|-----------------------------------------------------|-----------------------------------------|----------------------------------|---|
| Revenues                                                       | \$ —      | \$ —   | \$ 1,434 | \$ 3,323                             | \$ —                                                | \$ (9                                   | ) \$ 4,748                       |   |
| Costs of revenues, excluding depreciation and amortization     | —         | —      | 373      | 1,332                                | —                                                   | (2                                      | ) 1,703                          |   |
| Selling, general and administrative                            | 11        | —      | 159      | 1,061                                | —                                                   | (7                                      | ) 1,224                          |   |
| Depreciation and amortization                                  | —         | —      | 27       | 216                                  | —                                                   | —                                       | 243                              |   |
| Restructuring and other charges                                | —         | —      | 19       | 18                                   | —                                                   | —                                       | 37                               |   |
| Gain on disposition                                            | —         | —      | —        | (3                                   | ) —                                                 | —                                       | (3                               | ) |
| Total costs and expenses                                       | 11        | —      | 578      | 2,624                                | —                                                   | (9                                      | ) 3,204                          |   |
| Operating (loss) income                                        | (11       | ) —    | 856      | 699                                  | —                                                   | —                                       | 1,544                            |   |
| Equity in earnings of subsidiaries                             | 822       | 822    | 414      | —                                    | 548                                                 | (2,606                                  | ) —                              |   |
| Interest expense                                               | —         | —      | (241     | ) (7                                 | ) —                                                 | —                                       | (248                             | ) |
| Loss from equity investees, net                                | —         | —      | —        | (2                                   | ) —                                                 | —                                       | (2                               | ) |
| Other expense, net                                             | —         | —      | (16      | ) (62                                | ) —                                                 | —                                       | (78                              | ) |
| Income before income taxes                                     | 811       | 822    | 1,013    | 628                                  | 548                                                 | (2,606                                  | ) 1,216                          |   |
| Income tax benefit (expense)                                   | 4         | —      | (191     | ) (207                               | ) —                                                 | —                                       | (394                             | ) |
| Net income                                                     | 815       | 822    | 822      | 421                                  | 548                                                 | (2,606                                  | ) 822                            |   |
| Net income attributable to redeemable noncontrolling interests | —         | —      | —        | —                                    | —                                                   | (7                                      | ) (7                             | ) |
| Net income available to Discovery Communications, Inc.         | \$ 815    | \$ 822 | \$ 822   | \$ 421                               | \$ 548                                              | \$ (2,613                               | ) \$ 815                         |   |

DISCOVERY COMMUNICATIONS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

Condensed Consolidating Statement of Comprehensive Income  
Three Months Ended September 30, 2016  
(in millions)

|                                                                          | Discovery | DCH    | DCL    | Non-Guaranteed<br>Subsidiaries<br>DCL | Other<br>Non-Guaranteed<br>Subsidiaries<br>Discovery | Reclassification<br>and<br>Eliminations | Discovery<br>and<br>Subsidiaries |
|--------------------------------------------------------------------------|-----------|--------|--------|---------------------------------------|------------------------------------------------------|-----------------------------------------|----------------------------------|
| Net income                                                               | \$ 219    | \$ 221 | \$ 221 | \$ 114                                | \$ 147                                               | \$ (697 )                               | \$ 225                           |
| Other comprehensive (loss) income, net of tax:                           |           |        |        |                                       |                                                      |                                         |                                  |
| Currency translation adjustments                                         | (16 )     | (16 )  | (16 )  | (16 )                                 | (10 )                                                | 58                                      | (16 )                            |
| Market value adjustments                                                 | 50        | 50     | 50     | 50                                    | 34                                                   | (184 )                                  | 50                               |
| Derivative adjustments                                                   | 3         | 3      | 3      | 2                                     | 2                                                    | (10 )                                   | 3                                |
| Comprehensive income                                                     | 256       | 258    | 258    | 150                                   | 173                                                  | (833 )                                  | 262                              |
| Comprehensive income attributable to noncontrolling interests            | —         | —      | —      | —                                     | —                                                    | —                                       | —                                |
| Comprehensive income attributable to redeemable noncontrolling interests | —         | —      | —      | —                                     | —                                                    | (6 )                                    | (6 )                             |
| Comprehensive income attributable to Discovery Communications, Inc.      | \$ 256    | \$ 258 | \$ 258 | \$ 150                                | \$ 173                                               | \$ (839 )                               | \$ 256                           |

DISCOVERY COMMUNICATIONS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

Condensed Consolidating Statement of Comprehensive Income  
Three Months Ended September 30, 2015  
(in millions)

|                                                                        | Discovery | DCH    | DCL    | Non-Guaranteed<br>Subsidiaries<br>DCL | Other<br>Non-Guaranteed<br>Subsidiaries<br>Discovery | Reclassification<br>and<br>Eliminations | Discovery<br>and<br>Subsidiaries |
|------------------------------------------------------------------------|-----------|--------|--------|---------------------------------------|------------------------------------------------------|-----------------------------------------|----------------------------------|
| Net income                                                             | \$ 279    | \$ 281 | \$ 281 | \$ 175                                | \$ 187                                               | \$ (920 )                               | \$ 283                           |
| Other comprehensive (loss) income, net of tax:                         |           |        |        |                                       |                                                      |                                         |                                  |
| Currency translation adjustments                                       | (46 )     | (46 )  | (46 )  | (46 )                                 | (31 )                                                | 169                                     | (46 )                            |
| Derivative adjustments                                                 | 1         | 1      | 1      | 1                                     | —                                                    | (3 )                                    | 1                                |
| Comprehensive income                                                   | 234       | 236    | 236    | 130                                   | 156                                                  | (754 )                                  | 238                              |
| Comprehensive loss attributable to redeemable noncontrolling interests | (3 )      | (3 )   | (3 )   | (3 )                                  | (2 )                                                 | 7                                       | (7 )                             |
| Comprehensive income attributable to Discovery Communications, Inc.    | \$ 231    | \$ 233 | \$ 233 | \$ 127                                | \$ 154                                               | \$ (747 )                               | \$ 231                           |

DISCOVERY COMMUNICATIONS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

Condensed Consolidating Statement of Comprehensive Income (Loss)  
Nine Months Ended September 30, 2016  
(in millions)

|                                                                        | Discovery | DCH   | DCL   | Non-Guaranteed<br>Subsidiaries<br>DCL | Other<br>Non-Guaranteed<br>Subsidiaries<br>Discovery | Reclassification<br>and<br>Eliminations | Discovery<br>and<br>Subsidiaries |
|------------------------------------------------------------------------|-----------|-------|-------|---------------------------------------|------------------------------------------------------|-----------------------------------------|----------------------------------|
| Net income                                                             | \$ 890    | \$897 | \$897 | \$ 517                                | \$ 598                                               | \$ (2,890 )                             | \$ 909                           |
| Other comprehensive loss, net of tax:                                  |           |       |       |                                       |                                                      |                                         |                                  |
| Currency translation adjustments                                       | (23 )     | (23 ) | (23 ) | (23 )                                 | (15 )                                                | 84                                      | (23 )                            |
| Market value adjustments                                               | 25        | 25    | 25    | 25                                    | 17                                                   | (92 )                                   | 25                               |
| Derivative adjustments                                                 | (9 )      | (9 )  | (9 )  | (11 )                                 | (6 )                                                 | 35                                      | (9 )                             |
| Comprehensive income                                                   | 883       | 890   | 890   | 508                                   | 594                                                  | (2,863 )                                | 902                              |
| Comprehensive income attributable to noncontrolling interests          | —         | —     | —     | —                                     | —                                                    | (1 )                                    | (1 )                             |
| Comprehensive loss attributable to redeemable noncontrolling interests | (3 )      | (3 )  | (3 )  | (3 )                                  | (2 )                                                 | (7 )                                    | (21 )                            |
| Comprehensive income attributable to Discovery Communications, Inc.    | \$ 880    | \$887 | \$887 | \$ 505                                | \$ 592                                               | \$ (2,871 )                             | \$ 880                           |

DISCOVERY COMMUNICATIONS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

Condensed Consolidating Statement of Comprehensive Income (Loss)  
Nine Months Ended September 30, 2015  
(in millions)

|                                                                        | Discovery | DCH    | DCL    | Non-Guaranteed<br>Subsidiaries<br>DCL | Other<br>Non-Guaranteed<br>Subsidiaries<br>Discovery | Reclassification<br>and<br>Eliminations | Discovery<br>and<br>Subsidiaries |
|------------------------------------------------------------------------|-----------|--------|--------|---------------------------------------|------------------------------------------------------|-----------------------------------------|----------------------------------|
| Net income                                                             | \$ 815    | \$822  | \$822  | \$ 421                                | \$ 548                                               | \$ (2,606 )                             | \$ 822                           |
| Other comprehensive (loss) income, net of tax:                         |           |        |        |                                       |                                                      |                                         |                                  |
| Currency translation adjustments                                       | (162 )    | (162 ) | (162 ) | (160 )                                | (108 )                                               | 592                                     | (162 )                           |
| Derivative adjustments                                                 | (1 )      | (1 )   | (1 )   | (1 )                                  | (1 )                                                 | 4                                       | (1 )                             |
| Comprehensive income                                                   | 652       | 659    | 659    | 260                                   | 439                                                  | (2,010 )                                | 659                              |
| Comprehensive loss attributable to redeemable noncontrolling interests | 23        | 23     | 23     | 23                                    | 15                                                   | (91 )                                   | 16                               |
| Comprehensive income attributable to Discovery Communications, Inc.    | \$ 675    | \$682  | \$682  | \$ 283                                | \$ 454                                               | \$ (2,101 )                             | \$ 675                           |

DISCOVERY COMMUNICATIONS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

Condensed Consolidating Statement of Cash Flows  
Nine Months Ended September 30, 2016  
(in millions)

|                                                                 | Discovery | DCH     | DCL    | Non-Guaranteed<br>Subsidiaries<br>DCL | Other<br>Non-Guaranteed<br>Subsidiaries<br>Discovery | Reclassification<br>and<br>Eliminations | Discovery<br>and<br>Subsidiaries |
|-----------------------------------------------------------------|-----------|---------|--------|---------------------------------------|------------------------------------------------------|-----------------------------------------|----------------------------------|
| Operating Activities                                            |           |         |        |                                       |                                                      |                                         |                                  |
| Cash provided by (used in) operating activities                 | \$ (38 )  | \$ (20) | \$ 203 | \$ 682                                | \$ —                                                 | —\$ —                                   | \$ 827                           |
| Investing Activities                                            |           |         |        |                                       |                                                      |                                         |                                  |
| Investments in equity method investees, net                     | —         | —       | (6 )   | (61 )                                 | —                                                    | —                                       | (67 )                            |
| Purchases of property and equipment                             | —         | —       | (18 )  | (51 )                                 | —                                                    | —                                       | (69 )                            |
| Distributions from equity method investees                      | —         | —       | —      | 69                                    | —                                                    | —                                       | 69                               |
| Proceeds from dispositions, net of cash disposed                | —         | —       | —      | 19                                    | —                                                    | —                                       | 19                               |
| Investments in cost method investments                          | —         | —       | (2 )   | (2 )                                  | —                                                    | —                                       | (4 )                             |
| Inter-company distributions                                     | —         | —       | 23     | —                                     | —                                                    | (23 )                                   | —                                |
| Other investing activities, net                                 | —         | —       | —      | (2 )                                  | —                                                    | —                                       | (2 )                             |
| Cash used in investing activities                               | —         | —       | (3 )   | (28 )                                 | —                                                    | (23 )                                   | (54 )                            |
| Financing Activities                                            |           |         |        |                                       |                                                      |                                         |                                  |
| Commercial paper repayments, net                                | —         | —       | (23 )  | —                                     | —                                                    | —                                       | (23 )                            |
| Borrowings under revolving credit facility                      | —         | —       | 225    | 220                                   | —                                                    | —                                       | 445                              |
| Principal repayments of revolving credit facility               | —         | —       | (200 ) | (472 )                                | —                                                    | —                                       | (672 )                           |
| Borrowings from debt, net of discount                           | —         | —       | 498    | —                                     | —                                                    | —                                       | 498                              |
| Principal repayments of capital lease obligations               | —         | —       | (4 )   | (19 )                                 | —                                                    | —                                       | (23 )                            |
| Repurchases of stock                                            | (1,124 )  | —       | —      | —                                     | —                                                    | —                                       | (1,124 )                         |
| Prepayments for common stock repurchase contracts               | (71 )     | —       | —      | —                                     | —                                                    | —                                       | (71 )                            |
| Distributions to redeemable noncontrolling interests            | —         | —       | —      | (17 )                                 | —                                                    | —                                       | (17 )                            |
| Equity-based plan proceeds, net                                 | 32        | —       | —      | —                                     | —                                                    | —                                       | 32                               |
| Inter-company distributions                                     | —         | —       | —      | (23 )                                 | —                                                    | 23                                      | —                                |
| Inter-company contributions and other financing activities, net | 1,201     | 20      | (691 ) | (543 )                                | —                                                    | —                                       | (13 )                            |
| Cash provided by (used in) financing activities                 | 38        | 20      | (195 ) | (854 )                                | —                                                    | 23                                      | (968 )                           |
| Effect of exchange rate changes on cash and cash equivalents    | —         | —       | —      | 29                                    | —                                                    | —                                       | 29                               |
| Net change in cash and cash equivalents                         | —         | —       | 5      | (171 )                                | —                                                    | —                                       | (166 )                           |
|                                                                 | —         | —       | 3      | 387                                   | —                                                    | —                                       | 390                              |

Cash and cash equivalents, beginning of  
period

|                                          |      |     |     |        |    |     |   |        |
|------------------------------------------|------|-----|-----|--------|----|-----|---|--------|
| Cash and cash equivalents, end of period | \$ — | \$— | \$8 | \$ 216 | \$ | —\$ | — | \$ 224 |
|------------------------------------------|------|-----|-----|--------|----|-----|---|--------|

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DISCOVERY COMMUNICATIONS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

Condensed Consolidating Statement of Cash Flows  
Nine Months Ended September 30, 2015  
(in millions)

|                                                                 | Discovery | DCH  | DCL    | Non-Guarantor<br>Subsidiaries<br>DCL | Other<br>Non-Guarantor<br>Subsidiaries<br>Discovery | Reclassification<br>and<br>Eliminations | Discovery<br>and<br>Subsidiaries |
|-----------------------------------------------------------------|-----------|------|--------|--------------------------------------|-----------------------------------------------------|-----------------------------------------|----------------------------------|
| Operating Activities                                            |           |      |        |                                      |                                                     |                                         |                                  |
| Cash (used in) provided by operating activities                 | \$ (222 ) | \$ 2 | \$ 409 | \$ 463                               | \$                                                  | —\$                                     | — \$ 652                         |
| Investing Activities                                            |           |      |        |                                      |                                                     |                                         |                                  |
| Purchases of property and equipment                             | —         | —    | (11 )  | (65 )                                | —                                                   | —                                       | (76 )                            |
| Business acquisitions, net of cash acquired                     | —         | —    | —      | (24 )                                | —                                                   | —                                       | (24 )                            |
| Payments for derivative instruments                             | —         | —    | (11 )  | —                                    | —                                                   | —                                       | (11 )                            |
| Proceeds from dispositions, net of cash disposed                | —         | —    | —      | 61                                   | —                                                   | —                                       | 61                               |
| Distributions from equity method investees                      | —         | —    | —      | 67                                   | —                                                   | —                                       | 67                               |
| Investments in equity method investees, net                     | —         | —    | (1 )   | (25 )                                | —                                                   | —                                       | (26 )                            |
| Investments in cost method investments                          | —         | —    | —      | (16 )                                | —                                                   | —                                       | (16 )                            |
| Inter-company distributions                                     | —         | —    | 31     | —                                    | —                                                   | (31 )                                   | —                                |
| Other investing activities, net                                 | —         | —    | —      | (1 )                                 | —                                                   | —                                       | (1 )                             |
| Cash provided by (used in) investing activities                 | —         | —    | 8      | (3 )                                 | —                                                   | (31 )                                   | (26 )                            |
| Financing Activities                                            |           |      |        |                                      |                                                     |                                         |                                  |
| Commercial paper borrowings, net                                | —         | —    | (140 ) | —                                    | —                                                   | —                                       | (140 )                           |
| Borrowings under revolving credit facility                      | —         | —    | —      | 222                                  | —                                                   | —                                       | 222                              |
| Principal repayments of revolving credit facility               | —         | —    | (13 )  | (166 )                               | —                                                   | —                                       | (179 )                           |
| Borrowings from debt, net of discount                           | —         | —    | 936    | —                                    | —                                                   | —                                       | 936                              |
| Principal repayments of debt                                    | —         | —    | (849 ) | —                                    | —                                                   | —                                       | (849 )                           |
| Principal repayments of capital lease obligations               | —         | —    | (3 )   | (19 )                                | —                                                   | —                                       | (22 )                            |
| Repurchases of stock                                            | (576 )    | —    | —      | —                                    | —                                                   | —                                       | (576 )                           |
| Distributions to redeemable noncontrolling interests            | —         | —    | —      | (38 )                                | —                                                   | —                                       | (38 )                            |
| Equity-based plan payments, net                                 | (9 )      | —    | —      | —                                    | —                                                   | —                                       | (9 )                             |
| Hedge of borrowings from debt instruments                       | —         | —    | (29 )  | —                                    | —                                                   | —                                       | (29 )                            |
| Inter-company distributions                                     | —         | —    | —      | (31 )                                | —                                                   | 31                                      | —                                |
| Inter-company contributions and other financing activities, net | 807       | (2 ) | (311 ) | (509 )                               | —                                                   | —                                       | (15 )                            |
| Cash provided by (used in) financing activities                 | 222       | (2 ) | (409 ) | (541 )                               | —                                                   | 31                                      | (699 )                           |
| Effect of exchange rate changes on cash and cash equivalents    | —         | —    | —      | (32 )                                | —                                                   | —                                       | (32 )                            |
| Net change in cash and cash equivalents                         | —         | —    | 8      | (113 )                               | —                                                   | —                                       | (105 )                           |

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|                                                |      |      |       |        |    |     |        |
|------------------------------------------------|------|------|-------|--------|----|-----|--------|
| Cash and cash equivalents, beginning of period | —    | —    | 8     | 359    | —  | —   | 367    |
| Cash and cash equivalents, end of period       | \$ — | \$ — | \$ 16 | \$ 246 | \$ | —\$ | \$ 262 |

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**ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

Management's discussion and analysis of financial condition and results of operations is a supplement to and should be read in conjunction with the accompanying consolidated financial statements and related notes. This section provides additional information regarding Discovery Communications, Inc.'s ("Discovery," "Company," "we," "us," or "our") business, current developments, results of operations, cash flows and financial condition. Additional context can also be found in the 2015 Form 10-K.

**CAUTIONARY NOTE CONCERNING FORWARD-LOOKING STATEMENTS**

Certain statements in this Quarterly Report on Form 10-Q constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding our business, marketing and operating strategies, integration of acquired businesses, new service offerings, financial prospects, and anticipated sources and uses of capital. Words such as "anticipates," "estimates," "expects," "projects," "intends," "plans," "believes," and of similar substance used in connection with any discussion of future operating or financial performance identify forward-looking statements. Where, in any forward-looking statement, we express an expectation or belief as to future results or events, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the expectation or belief will result or be accomplished. The following is a list of some, but not all, of the factors that could cause actual results or events to differ materially from those anticipated: continued consolidation of distribution customers and production studios; a failure to secure affiliate agreements or renewal of such agreements on less favorable terms; changes in the distribution and viewing of television programming, including the expanded deployment of personal video recorders, video on demand ("VOD"), internet protocol television, mobile personal devices and personal tablets and their impact on television advertising revenue; rapid technological changes; the inability of advertisers or affiliates to remit payment to us in a timely manner or at all; general economic and business conditions; industry trends, including the timing of, and spending on, feature film, television and television commercial production; spending on domestic and foreign television advertising; disagreements with our distributors or other business partners over contract interpretation; fluctuations in foreign currency exchange rates and political unrest and regulatory changes in international markets, from events including Brexit; market demand for foreign first-run and existing content libraries; the regulatory and competitive environment of the industries in which we, and the entities in which we have interests, operate; uncertainties inherent in the development of new business lines and business strategies; uncertainties regarding the financial performance of our equity method investees; integration of acquired businesses; failure to achieve the operating flexibility anticipated by the recently announced cost savings plan; uncertainties associated with product and service development and market acceptance, including the development and provision of programming for new television and telecommunications technologies; future financial performance, including availability, terms, and deployment of capital; the ability of suppliers and vendors to deliver products, equipment, software, and services; our ability to achieve the efficiencies, savings and other benefits anticipated from our cost-reduction initiative; the outcome of any pending or threatened litigation; availability of qualified personnel; the possibility or duration of an industry-wide strike or other job action affecting a major entertainment industry union; changes in, or failure or inability to comply with, government regulations, including, without limitation, regulations of the Federal Communications Commission and adverse outcomes from regulatory proceedings; changes in income taxes due to regulatory changes or changes in our corporate structure; changes in the nature of key strategic relationships with partners, distributors and equity method investee partners; competitor responses to our products and services and the products and services of the entities in which we have interests; threatened terrorist attacks and military action; reduced access to capital markets or significant increases in costs to borrow; and a reduction of advertising revenue associated with unexpected reductions in the number of subscribers. For additional risk factors, refer to Item 1A, "Risk Factors," in the 2015 Form 10-K. These forward-looking statements and such risks, uncertainties, and other factors speak only as of the date of this Quarterly Report, and we expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained herein, to reflect any change in our expectations with regard thereto, or any other change in events, conditions or circumstances on which any such statement is based.

**BUSINESS OVERVIEW**

We are a global media company that provides content across multiple distribution platforms, including pay-TV, FTA and broadcast television, websites, digital distribution arrangements and content licensing agreements. Our portfolio

of networks includes prominent television brands such as Discovery Channel, our most widely distributed global brand, TLC, Animal Planet, Investigation Discovery ("ID") and Velocity (known as Turbo outside of the U.S.). We also develop and sell curriculum-based education products and services and operate production studios.

Our objectives are to invest in content for our networks to build viewership, optimize distribution revenue, capture advertising sales, and create or reposition branded channels and businesses that can sustain long-term growth and occupy a desired content niche with strong consumer appeal. Our strategy is to maximize the distribution, ratings and profit potential of each of our branded networks. In addition to growing distribution and advertising revenues for our branded networks, we are extending content

distribution across new platforms, including brand-aligned websites, web-native networks, on-line streaming, mobile devices, VOD and broadband channels, which provide promotional platforms for our television content and serve as additional outlets for advertising and distribution revenue. Audience ratings are a key driver in generating advertising revenue and creating demand on the part of cable television operators, direct-to-home ("DTH") satellite operators, telecommunication service providers, and other content distributors, who deliver our content to their customers.

Our content spans genres including survival, exploration, sports, lifestyle, general entertainment, heroes, adventure, crime and investigation, health and kids. We have an extensive library of high-definition content and own rights to much of our content and footage, which enables us to exploit our library to launch brands and services into new markets quickly. Our content can be re-edited and updated in a cost-effective manner to provide topical versions of subject matter that can be utilized around the world on a variety of platforms.

Although the Company utilizes certain brands and content globally, we classify our operations in two reportable segments: U.S. Networks, consisting principally of domestic television networks and websites, and International Networks, consisting primarily of international television networks and websites. The Company also has two combined operating segments referred to as Education and Other, consisting principally of curriculum-based product and service offerings and production studios. Our segment presentation aligns with our management structure and the financial information management uses to make decisions about operating matters, such as the allocation of resources and business performance assessments.

#### U.S. Networks

U.S. Networks generated revenues of \$2,473 million, which represented 51% of our total consolidated revenues, and Adjusted OIBDA of \$1,475 million during the nine months ended September 30, 2016. Our U.S. Networks segment owns and operates ten national television networks, including fully distributed television networks such as Discovery Channel, TLC and Animal Planet. In addition, this segment holds an equity method investment interest in OWN.

U.S. Networks generates revenues from fees charged to distributors of our television networks' first run content, which include cable, DTH satellite and telecommunication service providers, referred to as affiliate fees; fees from digital distributors for licensed content that was previously distributed on our television networks, referred to as digital distribution revenue; fees from advertising sold on our television networks and websites; fees from providing content to equity method investee networks; and revenue from licensing our brands for consumer products.

Typically, our television networks are aired pursuant to multi-year carriage agreements that provide for the level of carriage that our networks will receive and for annual graduated rate increases. Carriage of our networks depends on package inclusion, such as whether networks are on the more widely distributed, broader packages or lesser-distributed, specialized packages, also referred to as digital tiers. In December 2015, we announced our first authenticated U.S. TV Everywhere product that is available to certain subscribers and connects viewers with live and on-demand access to award-winning shows and series from nine U.S. networks in the Discovery portfolio: Discovery Channel, TLC, Animal Planet, ID, Science Channel, Velocity, Destination America, American Heroes Channel ("AHC") and Discovery Life.

Advertising revenue is based on the price received for available advertising spots and is dependent upon a number of factors including the number of subscribers to our channels, viewership demographics, the popularity of our programming, our ability to sell commercial time over a portfolio of channels and leverage multiple platforms to connect advertisers to target audiences. In the U.S., advertising time is sold in the upfront and scatter markets. In the upfront market, advertisers buy advertising time for upcoming seasons and, by committing to purchase in advance, lock in the advertising rates they will pay for the upcoming year. Many upfront advertising commitments include options whereby advertisers may reduce purchase commitments. In the scatter market, advertisers buy advertising closer to the time when the commercials will be run, which often results in a pricing premium compared to the upfront rates. The mix of upfront and scatter market advertising time sold is based upon the economic conditions at the time that upfront sales take place, impacting the sell-out levels management is willing or able to obtain. The demand in the scatter market then impacts the pricing achieved for our remaining advertising inventory. Scatter market pricing can vary from upfront pricing and can be volatile.

During the nine months ended September 30, 2016, distribution, advertising and other revenues were 47%, 51% and 2%, respectively, of total revenues for this segment.

U.S. Networks' largest single cost is content expense, which includes content amortization, content impairments and production costs. U.S. Networks amortizes the cost of capitalized content rights based on the proportion of current estimated revenues relative to the estimated remaining total lifetime revenues, which results in either an accelerated method or a straight-line method of amortization over the estimated useful lives of the content. Amortization rates vary by network. Most of U.S. Networks' content rights are amortized using an accelerated amortization method over four years.

On October 13, 2016, the Company announced a plan to contribute \$100 million and its digital network Seeker and production studio SourceFed in exchange for a 39% minority interest in a new holding company, Group Nine Media. Group Nine

Media includes digital companies Thrillist Media Group, Now This Media, and The Dodo. (See Note 2 to the accompanying consolidated financial statements.)

#### International Networks

International Networks generated revenues of \$2,221 million, which represented 46% of our total consolidated revenues, and Adjusted OIBDA of \$617 million during the nine months ended September 30, 2016. Our International Networks segment principally consists of national and pan-regional television networks. This segment generates revenue from operations in virtually every pay-TV market in the world through an infrastructure that includes operational centers in London, Warsaw, Milan, Singapore and Miami. Global brands include Discovery Channel, Animal Planet, TLC, ID, Science Channel and Turbo (known as Velocity in the U.S.), along with brands exclusive to International Networks, including Eurosport, Real Time, DMAX and Discovery Kids. International Networks has a large international distribution platform for its 36 networks, with as many as 14 networks distributed in any particular country or territory across the more than 220 countries and territories around the world. As of September 30, 2016, International Networks operated over 400 unique distribution feeds in over 40 languages with channel feeds customized according to language needs and advertising sales opportunities. International Networks also has FTA networks in Europe and the Middle East and broadcast networks in the Nordic countries, which we refer to as the Nordics, and continues to pursue further international expansion. FTA networks generate a significant portion of International Network's revenue. The penetration and growth rates of television services vary across the 220 countries and territories depending on the dominance of different television platforms in local markets. While pay-TV services have greater penetration in certain markets, FTA or broadcast television is dominant in others. International Networks pursues distribution across all television platforms based on the specific dynamics of local markets and relevant commercial agreements.

Similar to U.S. Networks, a significant source of revenue for International Networks relates to fees charged to operators who distribute our linear networks. Such operators primarily include cable and DTH satellite service providers. International television markets vary in their stages of development. Some markets, such as the U.K., are more advanced digital television markets, while others remain in the analog environment with varying degrees of investment from operators to expand channel capacity or convert to digital technologies. Common practice in some markets results in long-term contractual distribution relationships, while customers in other markets renew contracts annually. Distribution revenue for our International Networks segment is largely dependent on the number of subscribers that receive our networks or content, the rates negotiated in the distributor agreements, and the market demand for the content that we provide.

The other significant source of revenue for International Networks relates to advertising sold on our television networks, similar to U.S. Networks. Advertising revenue is dependent upon a number of factors, including the development of pay and free-to-air television markets, the number of subscribers to and viewers of our channels, viewership demographics, the popularity of our programming, and our ability to sell commercial time over a portfolio of channels. In certain markets, our advertising sales business operates with in-house sales teams, while we rely on external sales representation services in other markets. In developing television markets, advertising revenue growth results from continued subscriber growth, our localization strategy, and the shift of advertising spending from traditional broadcast networks to channels in the multi-channel environment. In relatively mature markets, such as Northern Europe, growth in advertising revenue comes from increasing advertising pricing and ratings on our existing television networks, and the development of new services.

During the nine months ended September 30, 2016, distribution, advertising and other revenues were 57%, 41% and 2%, respectively, of total net revenues for this segment. For the nine months ended September 30, 2016, pay-TV networks generated 48% of International Networks' advertising revenue and FTA or broadcast networks generated 52% of International Networks' advertising revenue.

International Networks' largest cost is content expense, which we distribute through localized programming disseminated via our 400 unique distribution feeds. While our International Networks segment maximizes the use of programming from U.S. Networks, we also develop local programming that is tailored to individual market preferences and license the rights to air films, television series and sporting events from third parties. International Networks amortizes the cost of capitalized content rights based on the proportion of current estimated revenues relative to the estimated remaining total lifetime revenues, which results in either an accelerated method or a

straight-line method over the estimated useful lives of the content of up to five years. Content acquired from U.S. Networks and content developed locally airing on the same network is amortized similarly, as amortization rates vary by network. Approximately half of International Networks' content is amortized using an accelerated amortization method, while the remainder is amortized on a straight-line basis. The costs for multi-year sports programming arrangements are expensed when the event is broadcast based on the estimated relative value of each component of the arrangement.

On June 23, 2016, the United Kingdom ("U.K.") held a referendum in which voters approved an exit from the European Union ("E.U."), commonly referred to as "Brexit." The British government announced that it will begin negotiating the terms of the U.K.'s future relationship with the E.U. in the first quarter of 2017. Brexit may have an adverse impact on advertising,

subscribers, distributors and employees. We are currently monitoring the situation for potential effects to our distribution and licensing agreements, unusual foreign currency exchange rate fluctuations, and changes to the legal and regulatory landscape.

On December 21, 2012, we acquired a 20% ownership interest in Eurosport France. On March 31, 2015, we completed our acquisition of an additional 31% equity interest in Eurosport France for €36 million (\$38 million), giving us a 51% controlling stake in Eurosport France. (See Note 2 to the accompanying consolidated financial statements.) On October 1, 2015, we acquired the remaining 49% of Eurosport France. (See Note 8 to the accompanying consolidated financial statements.)

On June 30, 2015, we sold our radio businesses in Northern Europe to Bauer for total consideration, net of cash disposed, of €72 million (\$80 million), which included €54 million (\$61 million) in cash and €18 million (\$19 million) of contingent consideration paid on April 1, 2016. The cumulative gain on the disposal of the radio business is \$1 million. Based on a change in estimate of the fair value of contingent consideration, we recorded a pre-tax gain of \$13 million for the nine months ended September 30, 2016. For the year ended December 31, 2015, we recorded an estimated loss on disposal of \$12 million using then available projected results. We determined that the disposal did not meet the definition of a discontinued operation because it does not represent a strategic shift that has a significant impact on our operations and consolidated financial results. (See Note 2 to the accompanying consolidated financial statements.)

On June 24, 2016, we acquired a 27.5% interest in Mega TV, a FTA channel in Chile owned by Bethia Comunicaciones, for \$53 million, which we account for using the equity method.

#### Education and Other

Education and Other generated revenues of \$133 million during the nine months ended September 30, 2016, which represented 3% of our consolidated revenues. Education is comprised of curriculum-based product and service offerings and generates revenues primarily from subscriptions charged to K-12 schools for access to an online suite of curriculum-based VOD tools, professional development services, digital textbooks and, to a lesser extent, student assessments and publication of hardcopy curriculum-based content. Other is comprised of production studios that develop content for our networks and television service providers throughout the world. Our wholly-owned production studios provide services to our U.S. Networks and International Networks segments at cost. The revenues and offsetting expenses associated with these inter-segment production services are not reflected in the results of operations for Education and Other as they have been eliminated within the production studios operating segment. On November 12, 2015, the Company paid \$195 million to acquire 5 million shares, or approximately 3%, of Lionsgate, an entertainment company involved in the production of movies and television which is accounted for as an AFS security. Since purchase, the fair value of the Company's investment has declined to \$100 million. During the three months ended September 30, 2016, the Company determined that the decline in value of our investment in Lionsgate is other-than-temporary in nature and, as such, the cost basis was adjusted to a fair value of the investment as of September 30, 2016. (See Note 3 to the accompanying consolidated financial statements.)

## RESULTS OF OPERATIONS

## Consolidated Results of Operations

The table below presents our consolidated results of operations (in millions).

|                                                                | Three Months Ended September 30, |       |          | Nine Months Ended September 30, |         |          |
|----------------------------------------------------------------|----------------------------------|-------|----------|---------------------------------|---------|----------|
|                                                                | 2016                             | 2015  | % Change | 2016                            | 2015    | % Change |
| Revenues:                                                      |                                  |       |          |                                 |         |          |
| Distribution                                                   | \$806                            | \$776 | 4 %      | \$2,420                         | \$2,309 | 5 %      |
| Advertising                                                    | 670                              | 699   | (4) %    | 2,170                           | 2,200   | (1) %    |
| Other                                                          | 80                               | 82    | (2) %    | 235                             | 239     | (2) %    |
| Total revenues                                                 | 1,556                            | 1,557 | — %      | 4,825                           | 4,748   | 2 %      |
| Costs of revenues, excluding depreciation and amortization     | 592                              | 574   | 3 %      | 1,787                           | 1,703   | 5 %      |
| Selling, general and administrative                            | 419                              | 394   | 6 %      | 1,227                           | 1,224   | — %      |
| Depreciation and amortization                                  | 80                               | 80    | — %      | 239                             | 243     | (2) %    |
| Restructuring and other charges                                | 7                                | 4     | 75 %     | 52                              | 37      | 41 %     |
| Gain on disposition                                            | —                                | —     | NM       | (13)                            | (3)     | NM       |
| Total costs and expenses                                       | 1,098                            | 1,052 | 4 %      | 3,292                           | 3,204   | 3 %      |
| Operating income                                               | 458                              | 505   | (9) %    | 1,533                           | 1,544   | (1) %    |
| Interest expense                                               | (91)                             | (82)  | 11 %     | (267)                           | (248)   | 8 %      |
| Income (loss) from equity investees, net                       | 3                                | (10)  | NM       | (28)                            | (2)     | NM       |
| Other expense, net                                             | (49)                             | —     | NM       | (27)                            | (78)    | (65) %   |
| Income before income taxes                                     | 321                              | 413   | (22) %   | 1,211                           | 1,216   | — %      |
| Income tax expense                                             | (96)                             | (130) | (26) %   | (302)                           | (394)   | (23) %   |
| Net income                                                     | 225                              | 283   | (20) %   | 909                             | 822     | 11 %     |
| Net income attributable to noncontrolling interests            | —                                | —     | NM       | (1)                             | —       | NM       |
| Net income attributable to redeemable noncontrolling interests | (6)                              | (4)   | 50 %     | (18)                            | (7)     | NM       |
| Net income available to Discovery Communications, Inc.         | \$219                            | \$279 | (22) %   | \$890                           | \$815   | 9 %      |

NM - Not meaningful

## Revenues

Distribution revenue includes affiliate fees and digital distribution revenue and is largely dependent on the rates negotiated in our distribution agreements, the number of subscribers that receive our networks or content, and the market demand for the content that we provide. Excluding the impact of foreign currency fluctuations, distribution revenue increased 7% for the three months ended September 30, 2016. (See "Items Impacting Comparability" below for more information on the impact of foreign currency fluctuations.) Excluding the impact of foreign currency fluctuations and the acquisition of Eurosport France, distribution revenue increased 8% for the nine months ended September 30, 2016. The increases for the three and nine months ended September 30, 2016 were a result of increases of 7% and 8%, respectively, at our U.S. Networks segment and increases of 8%, at our International Networks segment. U.S. Networks distribution revenue increased primarily due to annual contractual rate increases partially offset by slight declines in subscribers. International Networks' distribution revenue increases were mostly due to increases in rates in Northern Europe and increases in volume and rates in Latin America, and, to a lesser extent, increases in rates in CEEMEA.

Advertising revenue is dependent upon a number of factors, including the stage of development of television markets, the number of subscribers to our channels, viewership demographics, the popularity of our content, our ability to sell commercial time over a group of channels, market demand, the mix of sales of commercial time between the upfront and scatter markets, and economic conditions. These factors impact the pricing and volume of our advertising inventory. Excluding the impact of foreign currency fluctuations, advertising revenue decreased 3% for the three months ended September 30, 2016. Excluding the impact of foreign currency fluctuations and the disposition of the

Company's radio business, advertising revenue increased 3% for the nine months ended September 30, 2016. The U.S. Networks decreased 3% and increased 3% for the three and nine months ended

September 30, 2016, respectively, and International Networks decreased 2% and increased 3% for the three and nine months ended September 30, 2016, respectively. U.S. Networks' advertising revenue decreased for the three months ended September 30, 2016 primarily due to ratings declines, partially offset by pricing increases and inventory management in equivalent amounts. U.S. Networks' advertising revenue increased for the nine months ended September 30, 2016 due to pricing increases and inventory management in equivalent amounts. The decrease in International Networks' revenue for the three months ended September 30, 2016 was primarily driven by lower ratings and pricing in Northern Europe. The increase in International Networks' revenue for the nine months ended September 30, 2016 was primarily driven by ratings and volume in Southern Europe, and to a lesser extent, pricing, ratings and volume in CEEMEA, partially offset by lower ratings in Northern Europe.

Excluding the impact of foreign currency fluctuations, other revenue increased 8% for the three and nine months ended September 30, 2016. Excluding the impact of foreign currency fluctuations and the disposition of the Company's radio business, other revenue increased 4% for the nine months ended September 30, 2016. The increases for the three and nine months ended September 30, 2016 was due to increases at our U.S. Networks offset by decreases at our International Networks.

#### Costs of Revenues

Excluding the impact of foreign currency fluctuations, costs of revenues increased 6% for the three months ended September 30, 2016. Excluding the impact of foreign currency fluctuations, the acquisition of Eurosport France and the disposition of the Company's radio business, costs of revenues increased 8% for the nine months ended September 30, 2016. The increases were primarily attributable to increased spending for content on our networks, particularly sports rights, and slightly accelerated content amortization rates compared with prior years. Excluding the impact of foreign currency fluctuations and the disposition of the Company's radio business, content amortization was \$421 million and \$410 million for the three months ended September 30, 2016 and 2015, respectively. Excluding the impact of foreign currency fluctuations, the disposition of the Company's radio business, and the acquisition on Eurosport France, content amortization was \$1,261 million and \$1,190 million for the nine months ended September 30, 2016 and 2015, respectively.

#### Selling, General and Administrative

Selling, general and administrative expenses consist principally of employee costs, marketing costs, research costs, occupancy and back office support fees. Excluding the impact of foreign currency fluctuations, selling, general and administrative expenses increased 9% for the three months ended September 30, 2016 due to increases in mark-to-market equity-based compensation expense. Excluding the impact of foreign currency fluctuations and the disposition of the Company's radio business, selling, general and administrative expenses increased 4% for the nine months ended September 30, 2016, due to increases in mark-to-market equity-based compensation expense and marketing expense.

#### Depreciation and Amortization

Depreciation and amortization expense includes depreciation of fixed assets and amortization of finite-lived intangible assets. Depreciation and amortization remained consistent with the prior periods for the three and nine months ended September 30, 2016 as there have been no significant changes to capital spending and no new significant business combinations.

#### Restructuring and Other Charges

Restructuring and other charges increased \$3 million and \$15 million for the three and nine months ended September 30, 2016, respectively. For the nine months ended September 30, 2016, the increase was primarily due to personnel related termination costs for voluntary and involuntary severance actions in the second quarter of 2016. (See Note 17 to the accompanying consolidated financial statements.) This increase was partially offset by decreases in content impairments due to the cancellation of certain high profile series due to legal circumstances pertaining to the associated talent.

#### Gain on Disposition

Gain on disposition increased \$10 million for the nine months ended September 30, 2016 as a result of the recognition of the final contingent payment for the sale of the radio business on June 30, 2015. (See Note 2 to the accompanying consolidated financial statements.)

#### Interest Expense

Interest expense increased for the three and nine months ended September 30, 2016 primarily due to the March 11, 2016 issuance of the 4.90% senior notes due March 2026. (See Note 6 to the accompanying consolidated financial statements.)

# Income (loss) from equity investees, net

Income from our equity method investees increased \$13 million for the three months ended September 30, 2016 due to improved earnings at various equity method investees, including reduced losses for derivatives that do not receive hedge accounting at All3Media. Losses from our equity method investees increased \$26 million for the nine months ended September 30, 2016 due to increased losses for derivatives that do not receive hedge accounting at All3Media and a reduction of income at OWN due to increases in marketing expenses.

## Other Expense, net

The table below presents the details of other expense, net (in millions).

|                                                       | Three<br>Months<br>Ended<br>September<br>30,<br>2016 |       | Nine<br>Months<br>Ended<br>September<br>30,<br>2015 |        |
|-------------------------------------------------------|------------------------------------------------------|-------|-----------------------------------------------------|--------|
| Foreign currency gains (losses), net                  | \$15                                                 | \$(6) | \$52                                                | \$(73) |
| (Losses) gains on derivative instruments              | (1)                                                  | 8     | (16)                                                | (3)    |
| Remeasurement gain on previously held equity interest | —                                                    | —     | —                                                   | 2      |
| Other-than-temporary impairment of AFS investments    | (62)                                                 | —     | (62)                                                | —      |
| Other expense, net                                    | (1)                                                  | (2)   | (1)                                                 | (4)    |
| Total other expense, net                              | \$(49)                                               | \$—   | \$(27)                                              | \$(78) |

Other expense increased \$49 million and decreased \$51 million for the three and nine months ended September 30, 2016, respectively. During the three and nine months ended September 30, 2016, the Company recognized an other-than-temporary impairment in the value of its Lionsgate shares, resulting in the reclassification of \$62 million of unrealized losses, previously recorded to other comprehensive loss, to other expense, net. (See Note 3 to the accompanying consolidated financial statements.) In addition, gains in foreign currency revaluation were significantly affected by market changes in the British pound, particularly during the three months ended September 30, 2016. Consequently, foreign currency gains were recorded for the revaluation of monetary assets and liabilities associated with the international legal entity financing structure compared with revaluation losses in prior periods.

## Income Tax Expense

The following table reconciles the Company's effective income tax rate to the U.S. federal statutory income tax rate of 35%.

|                                                          | Three<br>Months<br>Ended<br>September<br>30,<br>2016 |       | Nine<br>Months<br>Ended<br>September<br>30,<br>2015 |       |
|----------------------------------------------------------|------------------------------------------------------|-------|-----------------------------------------------------|-------|
| U.S. federal statutory income tax rate                   | 35 %                                                 | 35 %  | 35 %                                                | 35 %  |
| State and local income taxes, net of federal tax benefit | 1 %                                                  | 1 %   | (4) %                                               | 2 %   |
| Effect of foreign operations                             | (5) %                                                | — %   | (4) %                                               | — %   |
| Domestic production activity deductions                  | (1) %                                                | (1) % | (3) %                                               | (3) % |
| Change in uncertain tax positions                        | — %                                                  | (3) % | 1 %                                                 | (2) % |
| Other, net                                               | — %                                                  | (1) % | — %                                                 | — %   |
| Effective income tax rate                                | 30 %                                                 | 31 %  | 25 %                                                | 32 %  |

Income tax expense was \$96 million and \$302 million, and the effective tax rates were 30% and 25% for the three and nine months ended September 30, 2016, respectively. Income tax expense was \$130 million and \$394 million, and the effective income tax rates were 31% and 32%, for the three and nine months ended September 30, 2015, respectively. For the three months ended September 30, 2016, the net decrease was primarily attributable to the allocation and taxation of income among multiple foreign and domestic jurisdictions. The decrease was partially offset by 2015 favorable audit resolutions which positively impacted the assessment of uncertain tax positions for the three months

ended September 30, 2015 but did not recur in 2016. In addition to these changes, the effective tax rate for the nine months ended September 30, 2016 was further reduced by the resolution of multi-year state tax positions that resulted in a reduction of reserves related to uncertain tax positions. (See Note 11 to the accompanying consolidated financial statements.)

### Segment Results of Operations

We evaluate the operating performance of our operating segments based on financial measures such as revenues and Adjusted OIBDA. Adjusted OIBDA is defined as operating income excluding: (i) mark-to-market equity-based compensation, (ii) depreciation and amortization, (iii) amortization of deferred launch incentives, (iv) restructuring and other charges, (v) certain impairment charges, (vi) gains and losses on business and asset dispositions, and (vii) certain inter-segment eliminations related to production studios. We use this measure to assess the operating results and performance of our segments, perform analytical comparisons, identify strategies to improve performance, and allocate resources to each segment. We believe Adjusted OIBDA is relevant to investors because it allows them to analyze the operating performance of each segment using the same metric management uses. We exclude mark-to-market equity-based compensation, restructuring and other charges, certain impairment charges, and gains and losses on business and asset dispositions from the calculation of Adjusted OIBDA due to their volatility. We also exclude the depreciation of fixed assets and amortization of intangible assets and deferred launch incentives as these amounts do not represent cash payments in the current reporting period. Additionally, certain corporate expenses and inter-segment eliminations related to production studios are excluded from segment results to enable executive management to evaluate segment performance based upon the decisions of segment executives. Adjusted OIBDA should be considered in addition to, but not a substitute for, operating income, net income and other measures of financial performance reported in accordance with GAAP.

Additional financial information for our reportable segments is set forth in Note 16 to the accompanying consolidated financial statements.

The table below presents the calculation of total Adjusted OIBDA (in millions).

|                                                                | Three Months Ended September 30, |       |          |   | Nine Months Ended September 30, |         |          |   |
|----------------------------------------------------------------|----------------------------------|-------|----------|---|---------------------------------|---------|----------|---|
|                                                                | 2016                             | 2015  | % Change |   | 2016                            | 2015    | % Change |   |
| Revenue:                                                       |                                  |       |          |   |                                 |         |          |   |
| U.S. Networks                                                  | \$793                            | \$781 | 2        | % | \$2,473                         | \$2,344 | 6        | % |
| International Networks                                         | 720                              | 740   | (3)      | % | 2,221                           | 2,276   | (2)      | % |
| Education and Other                                            | 43                               | 36    | 19       | % | 133                             | 130     | 2        | % |
| Corporate and inter-segment eliminations                       | —                                | —     | —        | % | (2)                             | (2)     | —        | % |
| Total revenue                                                  | 1,556                            | 1,557 | —        | % | 4,825                           | 4,748   | 2        | % |
| Costs of revenues, excluding depreciation and amortization     | (592)                            | (574) | 3        | % | (1,787)                         | (1,703) | 5        | % |
| Selling, general and administrative <sup>(a)</sup>             | (405)                            | (411) | (1)      | % | (1,203)                         | (1,233) | (2)      | % |
| Add: Amortization of deferred launch incentives <sup>(b)</sup> | 3                                | 4     | (25)     | % | 10                              | 12      | (17)     | % |
| Adjusted OIBDA                                                 | \$562                            | \$576 | (2)      | % | \$1,845                         | \$1,824 | 1        | % |

<sup>(a)</sup> Selling, general and administrative expenses exclude mark-to-market equity-based compensation.

<sup>(b)</sup> Amortization of deferred launch incentives is included as a reduction of distribution revenue for reporting in accordance with GAAP, but is excluded from Adjusted OIBDA.

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The table below presents our Adjusted OIBDA by segment, with a reconciliation of total Adjusted OIBDA to Net Income available to Discovery Communications, Inc. (in millions).

|                                                                | Three Months Ended September 30, |       |          | Nine Months Ended September 30, |         |          |
|----------------------------------------------------------------|----------------------------------|-------|----------|---------------------------------|---------|----------|
|                                                                | 2016                             | 2015  | % Change | 2016                            | 2015    | % Change |
| Adjusted OIBDA:                                                |                                  |       |          |                                 |         |          |
| U.S. Networks                                                  | \$458                            | \$443 | 3 %      | \$1,475                         | \$1,364 | 8 %      |
| International Networks                                         | 183                              | 218   | (16) %   | 617                             | 699     | (12) %   |
| Education and Other                                            | (1)                              | (5)   | 80 %     | (5)                             | (2)     | NM       |
| Corporate and inter-segment eliminations                       | (78)                             | (80)  | 3 %      | (242)                           | (237)   | (2) %    |
| Total Adjusted OIBDA                                           | 562                              | 576   | (2) %    | 1,845                           | 1,824   | 1 %      |
| Amortization of deferred launch incentives                     | (3)                              | (4)   | (25) %   | (10)                            | (12)    | (17) %   |
| Mark-to-market equity-based compensation                       | (14)                             | 17    | NM       | (24)                            | 9       | NM       |
| Depreciation and amortization                                  | (80)                             | (80)  | — %      | (239)                           | (243)   | (2) %    |
| Restructuring and other charges                                | (7)                              | (4)   | 75 %     | (52)                            | (37)    | 41 %     |
| Gain on disposition                                            | —                                | —     | NM       | 13                              | 3       | 333 %    |
| Operating income                                               | 458                              | 505   | (9) %    | 1,533                           | 1,544   | (1) %    |
| Interest expense                                               | (91)                             | (82)  | 11 %     | (267)                           | (248)   | 8 %      |
| Income (loss) from equity investees, net                       | 3                                | (10)  | NM       | (28)                            | (2)     | NM       |
| Other expense, net                                             | (49)                             | —     | NM       | (27)                            | (78)    | (65) %   |
| Income tax expense                                             | (96)                             | (130) | (26) %   | (302)                           | (394)   | (23) %   |
| Net income attributable to noncontrolling interests            | —                                | —     | NM       | (1)                             | —       | NM       |
| Net income attributable to redeemable noncontrolling interests | (6)                              | (4)   | 50 %     | (18)                            | (7)     | 157 %    |
| Net income available to Discovery Communications, Inc.         | \$219                            | \$279 | (22) %   | \$890                           | \$815   | 9 %      |

U.S. Networks

The table below presents, for our U.S. Networks operating segment, revenues by type, certain operating expenses, certain contra revenue amounts, Adjusted OIBDA and a reconciliation of Adjusted OIBDA to operating income (in millions).

|                                                            | Three Months Ended September 30, |       |          | Nine Months Ended September 30, |         |          |
|------------------------------------------------------------|----------------------------------|-------|----------|---------------------------------|---------|----------|
|                                                            | 2016                             | 2015  | % Change | 2016                            | 2015    | % Change |
| Revenues:                                                  |                                  |       |          |                                 |         |          |
| Distribution                                               | \$381                            | \$357 | 7 %      | \$1,157                         | \$1,076 | 8 %      |
| Advertising                                                | 396                              | 410   | (3) %    | 1,269                           | 1,232   | 3 %      |
| Other                                                      | 16                               | 14    | 14 %     | 47                              | 36      | 31 %     |
| Total revenues                                             | 793                              | 781   | 2 %      | 2,473                           | 2,344   | 6 %      |
| Costs of revenues, excluding depreciation and amortization | (214)                            | (218) | (2) %    | (652)                           | (633)   | 3 %      |
| Selling, general and administrative                        | (121)                            | (120) | 1 %      | (346)                           | (347)   | — %      |
| Adjusted OIBDA                                             | 458                              | 443   | 3 %      | 1,475                           | 1,364   | 8 %      |
| Depreciation and amortization                              | (7)                              | (7)   | — %      | (19)                            | (23)    | (17) %   |
| Restructuring and other charges                            | (2)                              | —     | NM       | (10)                            | (22)    | (55) %   |
| Inter-segment eliminations                                 | (4)                              | (3)   | 33 %     | (9)                             | (5)     | 80 %     |
| Operating income                                           | \$445                            | \$433 | 3 %      | \$1,437                         | \$1,314 | 9 %      |



## Revenues

Distribution revenue for the three and nine months ended September 30, 2016 increased 7% and 8%, respectively, primarily due to annual contractual rate increases partially offset by slight declines in subscribers.

Advertising revenue for the three months ended September 30, 2016 decreased 3%, primarily due to ratings declines, partially offset by pricing increases and inventory management in equivalent amounts. Advertising revenue for the nine months ended September 30, 2016 increased 3%, due to pricing increases and inventory management in equivalent amounts, partially offset by a decline in ratings.

Other revenue for the three and nine months ended September 30, 2016 increased 14% and 31%, respectively, primarily due to increases in services provided to equity method investees, and to a lesser extent, due to increases in content royalties.

## Costs of Revenues

Costs of revenues for the three months ended September 30, 2016 decreased 2%, primarily due to a reduction in content amortization. Cost of revenues for the nine months ended September 30, 2016 increased 3%, primarily due to increased spending for content on our networks. Content amortization was \$177 million and \$182 million for the three months ended September 30, 2016 and 2015, respectively and \$539 million and \$525 million for the nine months ended September 30, 2016 and 2015, respectively.

## Selling, General and Administrative

Selling, general and administrative expenses increased 1% and remained consistent for the three and nine months ended September 30, 2016 respectively, as increased spending on marketing was offset by decreases in personnel costs.

## Adjusted OIBDA

Adjusted OIBDA for the three months ended September 30, 2016 increased 3%, primarily due to increases in distribution revenue and decreases in content amortization, partially offset by decreases in advertising revenue and increases in marketing expense. Adjusted OIBDA for the nine months ended September 30, 2016 increased 8%, primarily due to increases in distribution and advertising revenue partially offset by increases in content amortization.

## International Networks

The following table presents, for our International Networks operating segment, revenues by type, certain operating expenses, contra revenue amounts, Adjusted OIBDA and a reconciliation of Adjusted OIBDA to operating income (in millions).

|                                                            | Three<br>Months<br>Ended<br>September<br>30, |       |          | Nine Months<br>Ended<br>September 30, |         |          |   |
|------------------------------------------------------------|----------------------------------------------|-------|----------|---------------------------------------|---------|----------|---|
|                                                            | 2016                                         | 2015  | % Change | 2016                                  | 2015    | % Change |   |
| Revenues:                                                  |                                              |       |          |                                       |         |          |   |
| Distribution                                               | \$425                                        | \$419 | 1        | \$1,263                               | \$1,233 | 2        | % |
| Advertising                                                | 273                                          | 289   | (6)      | 900                                   | 968     | (7)      | % |
| Other                                                      | 22                                           | 32    | (31)     | 58                                    | 75      | (23)     | % |
| Total revenues                                             | 720                                          | 740   | (3)      | 2,221                                 | 2,276   | (2)      | % |
| Costs of revenues, excluding depreciation and amortization | (360)                                        | (341) | 6        | (1,076)                               | (1,012) | 6        | % |
| Selling, general and administrative                        | (180)                                        | (185) | (3)      | (538)                                 | (577)   | (7)      | % |
| Add: Amortization of deferred launch incentives            | 3                                            | 4     | (25)     | 10                                    | 12      | (17)     | % |
| Adjusted OIBDA                                             | 183                                          | 218   | (16)     | 617                                   | 699     | (12)     | % |
| Amortization of deferred launch incentives                 | (3)                                          | (4)   | (25)     | (10)                                  | (12)    | (17)     | % |
| Depreciation and amortization                              | (55)                                         | (56)  | (2)      | (165)                                 | (172)   | (4)      | % |
| Restructuring and other charges                            | (5)                                          | (3)   | 67       | (25)                                  | (13)    | 92       | % |
| Gain on disposition                                        | —                                            | —     | NM       | 13                                    | 3       | NM       |   |
| Inter-segment eliminations                                 | —                                            | —     | NM       | (2)                                   | (2)     | —        | % |
| Operating income                                           | \$120                                        | \$155 | (23)     | \$428                                 | \$503   | (15)     | % |



## Revenues

Excluding the impact of foreign currency fluctuations, distribution revenue increased 8% for the three months ended September 30, 2016. Excluding the impact of foreign currency fluctuations and the acquisition of Eurosport France, distribution revenue increased 8% for the nine months ended September 30, 2016. These increases for the three and nine months ended September 30, 2016 were mostly due to increases in rates in Northern Europe and increases in volume and rates in Latin America, and to a lesser extent, increases in rates in CEEMEA. Such growth is consistent with the continued development of the pay-TV markets in Latin America and the value negotiated in new arrangements following investment in sports content in markets in Europe.

Excluding the impact of foreign currency fluctuations, advertising revenue decreased 2% for the three months ended September 30, 2016. The decrease for the three months ended September 30, 2016 was primarily driven by lower ratings and pricing in Northern Europe. Excluding the impact of foreign currency fluctuations and the disposition of the Company's radio business, advertising revenue increased 3% for the nine months ended September 30, 2016. The increase for the nine months ended September 30, 2016 was primarily driven by ratings and volume in Southern Europe, and, to a lesser extent, pricing, ratings and volume in CEEMEA, partially offset by lower ratings in Northern Europe.

Excluding the impact of foreign currency fluctuations, other revenue decreased 24% for the three months ended September 30, 2016. Excluding the impact of foreign currency fluctuations and the disposition of the Company's radio business, other revenue decreased 18% for the nine months ended September 30, 2016. The decrease for the three and nine months ended September 30, 2016 was due to the absence of sublicensing fees for Eurosport France, which have been eliminated since the Company began to consolidate Eurosport France on March 31, 2015. The decrease for the three months ended September 30, 2016 was further impacted by a reduction in license fees for certain sports rights.

## Costs of Revenues

Excluding the impact of foreign currency fluctuations, costs of revenues increased 9% for the three months ended September 30, 2016. Excluding the impact of foreign currency fluctuations, the acquisition of Eurosport France and the disposition of the Company's radio business, costs of revenues increased 11% for the nine months ended September 30, 2016. These increases were mostly attributable to increased spending on content, particularly sports rights and associated production costs, on our networks and slightly accelerated content amortization rates compared with prior year. Excluding the impact of foreign currency fluctuations, content amortization was \$241 million and \$226 million for the three months ended September 30, 2016 and 2015, respectively. Excluding the impact of foreign currency fluctuations and the acquisition of Eurosport France, content amortization was \$714 million and \$659 million for the nine months ended September 30, 2016 and 2015, respectively.

## Selling, General and Administrative

Excluding the impact of foreign currency fluctuations, selling, general and administrative expenses remained consistent for the three months ended September 30, 2016 compared with the prior year. Excluding the impact of foreign currency fluctuations and the disposition of the Company's radio business, selling, general and administrative expenses remained consistent for the nine months ended September 30, 2016 compared with the prior year. The components of selling, general and administrative expenses included increases in personnel expenses offset by decreases in integration and support costs.

## Adjusted OIBDA

Excluding the impact of foreign currency fluctuations, Adjusted OIBDA decreased 9% for the three months ended September 30, 2016. Excluding the impact of foreign currency fluctuations and the disposition of the Company's radio business, Adjusted OIBDA decreased 1% for the nine months ended September 30, 2016, respectively. The decreases were primarily due to higher content expense partially offset by increases in distribution revenue.

## Education and Other

The following table presents, for our Education and Other segments revenues, certain operating expenses, Adjusted OIBDA and a reconciliation of Adjusted OIBDA to operating income (in millions).

|                                                            | Three Months Ended September 30, |        |          | Nine Months Ended September 30, |        |          |
|------------------------------------------------------------|----------------------------------|--------|----------|---------------------------------|--------|----------|
|                                                            | 2016                             | 2015   | % Change | 2016                            | 2015   | % Change |
| Revenues                                                   | \$43                             | \$36   | 19 %     | \$133                           | \$130  | 2 %      |
| Costs of revenues, excluding depreciation and amortization | (19 )                            | (16 )  | 19 %     | (60 )                           | (58 )  | 3 %      |
| Selling, general and administrative                        | (25 )                            | (25 )  | — %      | (78 )                           | (74 )  | 5 %      |
| Adjusted OIBDA                                             | (1 )                             | (5 )   | 80 %     | (5 )                            | (2 )   | NM       |
| Depreciation and amortization                              | (3 )                             | (2 )   | 50 %     | (6 )                            | (5 )   | 20 %     |
| Restructuring and other charges                            | —                                | (2 )   | (100 )%  | (3 )                            | (2 )   | 50 %     |
| Inter-segment eliminations                                 | 4                                | 3      | 33 %     | 11                              | 7      | 57 %     |
| Operating income                                           | \$—                              | \$(6 ) | (100 )%  | \$(3 )                          | \$(2 ) | 50 %     |

Adjusted OIBDA for the three and nine months ended September 30, 2016 increased \$4 million and decreased \$3 million, respectively. The increase for the three months ended September 30, 2016 was primarily due to higher production deliveries at the studios business and the decrease for the nine months ended September 30, 2016 was primarily due to additional operational investments in Education's digital textbooks, which more than offset improvements in operating expenses at the Studios business.

## Corporate and Inter-segment Eliminations

The following table presents our unallocated corporate amounts including certain operating expenses, Adjusted OIBDA and a reconciliation of Adjusted OIBDA to operating loss (in millions).

|                                                            | Three Months Ended September 30, |        |          | Nine Months Ended September 30, |         |          |
|------------------------------------------------------------|----------------------------------|--------|----------|---------------------------------|---------|----------|
|                                                            | 2016                             | 2015   | % Change | 2016                            | 2015    | % Change |
| Revenues                                                   | \$—                              | \$—    | NM       | \$(2 )                          | \$(2 )  | — %      |
| Costs of revenues, excluding depreciation and amortization | 1                                | 1      | — %      | 1                               | —       | NM       |
| Selling, general and administrative                        | (79 )                            | (81 )  | (2 )%    | (241 )                          | (235 )  | 3 %      |
| Adjusted OIBDA                                             | (78 )                            | (80 )  | 3 %      | (242 )                          | (237 )  | (2 )%    |
| Mark-to-market equity-based compensation                   | (14 )                            | 17     | NM       | (24 )                           | 9       | NM       |
| Depreciation and amortization                              | (15 )                            | (15 )  | — %      | (49 )                           | (43 )   | 14 %     |
| Restructuring and other charges                            | —                                | 1      | (100 )%  | (14 )                           | —       | NM       |
| Operating loss                                             | \$(107)                          | \$(77) | 39 %     | \$(329)                         | \$(271) | 21 %     |

Corporate operations primarily consist of executive management, administrative support services and substantially all of our equity-based compensation.

Adjusted OIBDA was consistent period over period. Adjusted OIBDA increased 3% and decreased 2% for the three and nine months ended September 30, 2016 respectively.

The increase in mark-to-market equity-based compensation expense for the three and nine months ended September 30, 2016 was primarily attributable to an increase in Discovery's stock price for the three and nine months ended September 30, 2016 compared with an decrease in stock price during the three and nine months ended September 30, 2015. Changes in stock price are a key driver of fair value estimates used in the attribution of expense for SARs, PRSUs and unit awards. By contrast, stock options and RSUs are fair valued at grant date and amortized over their vesting period without mark-to-market adjustments. The expense associated with these equity awards are included in Adjusted OIBDA as a component of selling general and administrative expense.



### Items Impacting Comparability

The impact of exchange rates on our business is an important factor in understanding period to period comparisons of our results. For example, our international revenues are favorably impacted as the U.S. dollar weakens relative to other foreign currencies, and unfavorably impacted as the U.S. dollar strengthens relative to other foreign currencies. We believe the presentation of results on a constant currency basis (ex-FX), in addition to results reported in accordance with GAAP provides useful information about our operating performance because the presentation ex-FX excludes the effects of foreign currency volatility and highlights our core operating results. The presentation of results on a constant currency basis should be considered in addition to, but not a substitute for, measures of financial performance reported in accordance with GAAP.

The ex-FX change represents the percentage change on a period-over-period basis adjusted for foreign currency impacts. The ex-FX change is calculated as the difference between the current year amounts translated at a baseline rate, a spot rate for each of our currencies determined early in the fiscal year as part of our forecasting process, (the “2016 Baseline Rate”) and the prior year amounts translated at the same 2016 Baseline Rate. In addition, consistent with the assumption of a constant currency environment, our ex-FX results exclude the impact of our foreign currency hedging activities as well as realized and unrealized foreign currency transaction gains and losses. Results on a constant currency basis, as we present them, may not be comparable to similarly titled measures used by other companies.

The impact of foreign currency on the comparability of our consolidated results is as follows (dollar amounts in millions):

|                                                           | Three Months Ended September 30, |         |                        |                        |  |
|-----------------------------------------------------------|----------------------------------|---------|------------------------|------------------------|--|
|                                                           | 2016                             | 2015    | % Change<br>(Reported) | %<br>Change<br>(ex-FX) |  |
| Revenues:                                                 |                                  |         |                        |                        |  |
| Distribution                                              | \$806                            | \$776   | 4 %                    | 7 %                    |  |
| Advertising                                               | 670                              | 699     | (4 )%                  | (3 )%                  |  |
| Other                                                     | 80                               | 82      | (2 )%                  | 8 %                    |  |
| Total revenues                                            | 1,556                            | 1,557   | — %                    | 3 %                    |  |
| Costs of revenue, excluding depreciation and amortization | 592                              | 574     | 3 %                    | 6 %                    |  |
| Selling, general and administrative expense               | 419                              | 394     | 6 %                    | 9 %                    |  |
| Adjusted OIBDA                                            | 562                              | 576     | (2 )%                  | 1 %                    |  |
|                                                           |                                  |         |                        |                        |  |
|                                                           | Nine Months Ended September 30,  |         |                        |                        |  |
|                                                           | 2016                             | 2015    | % Change<br>(Reported) | %<br>Change<br>(ex-FX) |  |
| Revenues:                                                 |                                  |         |                        |                        |  |
| Distribution                                              | \$2,420                          | \$2,309 | 5 %                    | 9 %                    |  |
| Advertising                                               | 2,170                            | 2,200   | (1 )%                  | — %                    |  |
| Other                                                     | 235                              | 239     | (2 )%                  | 2 %                    |  |
| Total revenues                                            | 4,825                            | 4,748   | 2 %                    | 4 %                    |  |
| Costs of revenue, excluding depreciation and amortization | 1,787                            | 1,703   | 5 %                    | 7 %                    |  |
| Selling, general and administrative expense               | 1,227                            | 1,224   | — %                    | 2 %                    |  |
| Adjusted OIBDA                                            | 1,845                            | 1,824   | 1 %                    | 5 %                    |  |

The impact of foreign currency on the comparability of our financial results for International Networks for the three and nine months ended September 30, 2016 is as follows (dollar amounts in millions):

| Three Months Ended September 30,                          |         |         |                     |   |                  |   |
|-----------------------------------------------------------|---------|---------|---------------------|---|------------------|---|
|                                                           | 2016    | 2015    | % Change (Reported) |   | % Change (ex-FX) |   |
| Revenues:                                                 |         |         |                     |   |                  |   |
| Distribution                                              | \$425   | \$419   | 1                   | % | 8                | % |
| Advertising                                               | 273     | 289     | (6)                 | % | (2)              | % |
| Other                                                     | 22      | 32      | (31)                | % | (24)             | % |
| Total revenues                                            | 720     | 740     | (3)                 | % | 2                | % |
| Costs of revenue, excluding depreciation and amortization | 360     | 341     | 6                   | % | 9                | % |
| Selling, general and administrative expenses              | 180     | 185     | (3)                 | % | 1                | % |
| Adjusted OIBDA                                            | 183     | 218     | (16)                | % | (9)              | % |
|                                                           |         |         |                     |   |                  |   |
| Nine Months Ended September 30,                           |         |         |                     |   |                  |   |
|                                                           | 2016    | 2015    | % Change (Reported) |   | % Change (ex-FX) |   |
| Revenues:                                                 |         |         |                     |   |                  |   |
| Distribution                                              | \$1,263 | \$1,233 | 2                   | % | 10               | % |
| Advertising                                               | 900     | 968     | (7)                 | % | (4)              | % |
| Other                                                     | 58      | 75      | (23)                | % | (22)             | % |
| Total revenues                                            | 2,221   | 2,276   | (2)                 | % | 3                | % |
| Costs of revenue, excluding depreciation and amortization | 1,076   | 1,012   | 6                   | % | 9                | % |
| Selling, general and administrative expenses              | 538     | 577     | (7)                 | % | (3)              | % |
| Adjusted OIBDA                                            | 617     | 699     | (12)                | % | (2)              | % |

## FINANCIAL CONDITION

### Liquidity

#### Sources of Cash

Historically, we have generated a significant amount of cash from operations. During the nine months ended September 30, 2016, we have funded our working capital needs primarily through cash flows from operations. As of September 30, 2016, we had \$224 million of cash and cash equivalents on hand. We maintain an effective Registration Statement on Form S-3 that allows us to conduct registered offerings of securities, including debt securities, common stock and preferred stock. Access to sufficient capital from the public market is not assured.

### Debt

#### Senior Notes

On March 11, 2016, DCL, a wholly-owned subsidiary of the Company, issued \$500 million principal amount of 4.90% senior notes due March 11, 2026. All of DCL's outstanding senior notes are fully and unconditionally guaranteed on an unsecured and unsubordinated basis by Discovery and contain certain covenants, events of default and other customary provisions.

#### Revolving Credit Facility

We have access to a \$2.0 billion revolving credit facility. Borrowing capacity under this agreement is reduced by the outstanding borrowings under our commercial paper program. As of September 30, 2016, the Company had outstanding borrowings under the revolving credit facility of \$545 million at a weighted average interest rate of 1.94%. Borrowings under the revolving credit facility bear interest at rates that vary based on DCL's periodic debt ratings. The revolving credit facility agreement provides for a maturity date of February 4, 2021 and the option for up to two additional 364-day



renewal periods. All obligations of DCL and the other borrowers under the revolving credit facility are unsecured and are fully and unconditionally guaranteed by Discovery. Borrowings may be used for general corporate purposes. The credit agreement governing the revolving credit facility (the "Credit Agreement") contains customary representations, warranties and events of default, as well as affirmative and negative covenants, including limitations on liens, investments, indebtedness, dispositions, affiliate transactions, dividends and restricted payments. DCL, its subsidiaries and Discovery are also subject to a limitation on mergers, liquidation and disposals of all or substantially all of their assets. The Credit Agreement also requires DCL to maintain a consolidated interest coverage ratio (as defined in the Credit Agreement) of no less than 3:00 to 1:00 and a consolidated leverage ratio (as defined in the Credit Agreement) of no more than 4:50 to 1:00. As of September 30, 2016, Discovery, DCL and the other borrowers were in compliance with all covenants and there were no events of default under the Credit Agreement.

#### Commercial Paper

Under our commercial paper program and subject to market conditions, DCL may issue unsecured commercial paper notes from time to time up to an aggregate principal amount outstanding at any given time of \$1.0 billion. The maturities of these notes vary but may not exceed 397 days. The notes may be issued at a discount or at par, and interest rates vary based on market conditions and the credit ratings assigned to the notes at the time of issuance. As of September 30, 2016, we had \$70 million of commercial paper borrowings outstanding with a weighted average interest rate of approximately .90% and maturities of less than 90 days.

We repay our senior notes, revolving credit facility and commercial paper as required, and accordingly these sources of cash also require use of our cash.

#### Notes Receivable

We have an outstanding note receivable from OWN, our equity method investee, which totals \$326 million including interest. During the nine months ended September 30, 2016, the Company received net repayments on the note receivable of \$71 million. Borrowings are scheduled for repayment four years after the borrowing date to the extent that OWN has excess cash to repay the borrowings then due.

#### Uses of Cash

Our primary uses of cash include the creation and acquisition of new content, business acquisitions, repurchases of our capital stock, income taxes, personnel costs, principal and interest on our outstanding senior notes, and funding for various equity method and other investments.

#### Content Acquisition

We plan to continue to invest significantly in the creation and acquisition of new content. Additional information regarding contractual commitments to acquire content is set forth in "Commitments and Off-Balance Sheet Arrangements" in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2015 Form 10-K.

#### Common Stock Repurchase Program

Under the stock repurchase program, management is authorized to purchase shares of the Company's common stock from time to time through open market purchases or privately negotiated transactions at prevailing market prices or pursuant to one or more accelerated stock repurchase or other derivative arrangements as permitted by securities laws and other legal requirements and subject to stock price, business and market conditions and other factors. As of September 30, 2016, the Company had repurchased 3 million and 144 million shares of our Series A and Series C common stock over the life of the program for the aggregate purchase price of \$171 million and \$6.0 billion, respectively. Over the life of the program, authorization under the stock repurchase program has totaled \$7.5 billion. As of September 30, 2016, the Company had remaining authorization of \$1.3 billion for future repurchases under the existing stock repurchase program, which will expire on October 8, 2017. We have been funding our stock repurchases through a combination of cash on hand, cash generated by operations and the issuance of debt. In the future we may also choose to fund our stock repurchase program through borrowings under our revolving credit facility and future financing transactions.

#### Preferred Stock Conversion and Repurchase

We have an agreement with Advance/Newhouse to repurchase, on a quarterly basis, a number of shares of Series C convertible preferred stock convertible into 3/7 of the number of shares of Series C common stock purchased under the Company's stock repurchase program during the then most recently completed fiscal quarter. The price paid per

share is calculated as 99% of the average price paid for the Series C common shares repurchased by the Company during the applicable fiscal quarter multiplied by the Series C conversion rate. The Advance/Newhouse repurchases are made outside of the Company's publicly announced stock repurchase program. During the nine months ended September 30, 2016, we converted and retired 6.9

million shares of our Series C convertible preferred stock under the preferred stock conversion and repurchase arrangement for an aggregate purchase price of \$371 million. The Company expects to convert and retire 2.2 million shares of its Series C convertible preferred shares under the preferred stock conversion and repurchase arrangement for an aggregate purchase price of \$108 million on or about November 3, 2016. (See Note 9 to the accompanying consolidated financial statements.)

#### **Prepayment for Repurchase of Common Stock**

We entered into a prepaid common stock repurchase contract for the Company's Series C common stock that will settle during the quarter ended December 31, 2016. We made an up-front cash-payment of \$71 million for the right to receive 3 million shares of our Series C common stock or \$75 million in cash or shares at the expiration of the agreement. (See Note 9 to the accompanying consolidated financial statements.)

#### **Income Taxes and Interest**

We expect to continue to make payments for income taxes and interest on our outstanding senior notes. During the nine months ended September 30, 2016, we made cash payments of \$427 million and \$207 million for income taxes and interest on our outstanding debt, respectively.

#### **Business Combinations and Investments**

Our uses of cash have included business combinations. (See Note 2 to the accompanying consolidated financial statements.) Due to business combinations, we also have redeemable equity balances of \$247 million, which may require the use of cash in the event holders of noncontrolling interests put their interests to the Company.

On October 13, 2016, the Company announced a plan to contribute \$100 million and its digital network Seeker and production studio SourceFed in exchange for a 39% minority interest in a new holding company, Group Nine Media. Group Nine Media includes digital companies Thrillist Media Group, Now This Media, and The Dodo.

We have interests in various equity method investees and provide funding to those equity method investees from time to time. We also have interests in AFS securities and cost method investments. (See Note 3 to the accompanying consolidated financial statements.)

#### **Restructuring and Other**

As announced on May 4, 2016, we committed to a cost-savings plan that encompasses a series of actions intended to enable us to more efficiently operate a leaner cost structure and invest in growth initiatives, including digital media and content creation. The cost-savings plan includes significant personnel restructuring (see Note 17). The Company expects to take additional actions to reduce its non-personnel costs and is continuing to evaluate its overall expense base.

#### **Equity-Based Compensation**

We expect to continue to make payments for vested cash-settled equity awards. Actual amounts expensed and payable for cash-settled awards are dependent on future fair value calculations which are primarily affected by changes in our stock price or changes in the number of awards outstanding. During the nine months ended September 30, 2016, we paid \$5 million for cash-settled equity awards. As of September 30, 2016, liabilities totaled \$72 million for outstanding liability-classified equity-based compensation awards, of which \$27 million was classified as current. (See Note 10 to the accompanying consolidated financial statements.)

#### **Cash Flows**

The following table presents changes in cash and cash equivalents (in millions).

|                                                              | Nine Months<br>Ended<br>September<br>30, |        |
|--------------------------------------------------------------|------------------------------------------|--------|
|                                                              | 2016                                     | 2015   |
| Cash and cash equivalents, beginning of period               | \$390                                    | \$367  |
| Cash provided by operating activities                        | 827                                      | 652    |
| Cash used in investing activities                            | (54 )                                    | (26 )  |
| Cash used in financing activities                            | (968 )                                   | (699 ) |
| Effect of exchange rate changes on cash and cash equivalents | 29                                       | (32 )  |
| Net change in cash and cash equivalents                      | (166 )                                   | (105 ) |

|                                          |       |       |
|------------------------------------------|-------|-------|
| Cash and cash equivalents, end of period | \$224 | \$262 |
|------------------------------------------|-------|-------|

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## Operating Activities

Cash provided by operating activities increased \$175 million for the nine months ended September 30, 2016 as compared to the nine months ended September 30, 2015. Decreases in cash paid for taxes and decreases in receivables were partially offset by increases in content spending, particularly for sports rights, of \$78 million.

## Investing Activities

Cash flows used in investing activities increased \$28 million for the nine months ended September 30, 2016 as compared to the nine months ended September 30, 2015. The increase was attributable to a decrease in proceeds from disposition of businesses of \$42 million and an increase in investments in equity method investees of \$41 million. These changes were partially offset by a decrease in cash paid for business combinations, net of cash acquired of \$24 million, and a decrease in payments for derivative instruments, net of \$11 million.

## Financing Activities

Cash flows used in financing activities increased \$269 million for the nine months ended September 30, 2016 as compared to the nine months ended September 30, 2015. The increase was primarily attributable to an increase in repurchases of stock of \$548 million and a prepayment of \$71 million in connection with a common stock repurchase contract during the three months ended September 30, 2016. These increases were partially offset by increases in borrowings of \$258 million, which is comprised of increased borrowings of senior notes, net of repayments, of \$411 million and decreases in commercial paper repayments of \$117 million offset by increases in repayments on the revolver loans, net of repayments, of \$270 million.

## Capital Resources

As of September 30, 2016, capital resources were comprised of the following (in millions).

|                                          | September 30, 2016 |                               |                          |                 |
|------------------------------------------|--------------------|-------------------------------|--------------------------|-----------------|
|                                          | Total Capacity     | Outstanding Letters of Credit | Outstanding Indebtedness | Unused Capacity |
| Cash and cash equivalents                | \$ 224             | \$ —                          | \$ —                     | \$ 224          |
| Revolving credit facility <sup>(a)</sup> | 2,000              | 1                             | 615                      | 1,384           |
| Senior notes <sup>(b)</sup>              | 7,308              | —                             | 7,308                    | —               |
| Total                                    | \$9,532            | \$ 1                          | \$ 7,923                 | \$ 1,608        |

<sup>(a)</sup> Outstanding commercial paper borrowings of \$70 million as of September 30, 2016 are supported by unused committed capacity under the revolving credit facility and reduce unused capacity. There were \$545 million in borrowings under the revolving credit facility outstanding as of September 30, 2016.

<sup>(b)</sup> Interest on the senior notes is paid annually or semi-annually. Our senior notes outstanding as of September 30, 2016 had interest rates that ranged from 1.90% to 6.35% and will mature between 2019 and 2043.

We expect that our cash balance, cash generated from operations and availability under our revolving credit agreement will be sufficient to fund our cash needs for the next twelve months. Our borrowing costs and access to capital markets can be affected by short and long-term debt ratings assigned by independent rating agencies which are based, in part, on our performance as measured by credit metrics such as interest coverage and leverage ratios.

As of September 30, 2016, we held \$86 million of our \$224 million of cash and cash equivalents in our foreign subsidiaries. We intend to permanently reinvest these funds outside of the U.S. Our current plans do not demonstrate a need to repatriate them to the U.S. However, if these funds are needed in the U.S., we would be required to accrue and pay U.S. taxes to repatriate them. The determination of the amount of unrecognized U.S. deferred income tax liability with respect to these undistributed foreign earnings is not practicable.

## COMMITMENTS AND OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of business, we enter into commitments for the purchase of goods or services that require us to make payments or provide funding in the event certain circumstances occur. (See Note 15 to the accompanying consolidated financial statements.)



## RELATED PARTY TRANSACTIONS

In the ordinary course of business, we enter into transactions with related parties, primarily Liberty Global, Liberty Broadband, our equity method investees and minority partners of our consolidated subsidiaries. (See Note 14 to the accompanying consolidated financial statements.)

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our critical accounting policies and estimates have not changed since December 31, 2015. For a discussion of each of our critical accounting policies listed below, including information and analysis of estimates and assumptions involved in their application, and other significant accounting policies, see Note 2 to the consolidated financial statements included in Item 8, "Financial Statements and Supplementary Data" in the 2015 Form 10-K:

- Revenue recognition;
- Goodwill and intangible assets;
- Income taxes;
- Content rights;
- Equity-based compensation; and
- Equity method investments.

## NEW ACCOUNTING AND REPORTING PRONOUNCEMENTS

We adopted accounting and reporting standards during the nine months ended September 30, 2016. (See Note 1 to the accompanying consolidated financial statements.)

### ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Quantitative and qualitative disclosures about our existing market risk are set forth in Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," in the 2015 Form 10-K. Our exposures to market risk have not changed materially since December 31, 2015.

### ITEM 4. Controls and Procedures

#### Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2016. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of September 30, 2016, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

#### Changes in Internal Control Over Financial Reporting

During the three months ended September 30, 2016, there were no changes in our internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f), that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

## ITEM 1. Legal Proceedings

In the normal course of business, we experience routine claims and legal proceedings. It is the opinion of our management, based on information available at this time, that none of the current claims and proceedings will have a material adverse effect on our consolidated financial position, results of operations or cash flows.

## ITEM 1A. Risk Factors

Disclosure about our existing risk factors is set forth in Item 1A, "Risk Factors," in the 2015 Form 10-K. Our risk factors have not changed materially since December 31, 2015, except for the following:

As a company that has operations in the United Kingdom, the vote by the United Kingdom to leave the European Union (the "E.U.") could have an adverse impact on our business, results of operations and financial position.

On June 23, 2016, the U.K. held a referendum in which voters approved an exit from the E.U., commonly referred to as "Brexit." As a result of the referendum, it is expected that the British government will begin negotiating the terms of the U.K.'s future relationship with the E.U. The effects of Brexit will depend on any agreements the U.K. makes to retain access to the E.U. markets either during a transitional period or more permanently. The measures could potentially disrupt the markets we serve and may cause us to lose subscribers, distributors and employees. If the U.K. loses access to the single E.U. market and the global trade deals negotiated by the E.U., it could have a detrimental impact on our U.K. growth. Such a decline could also make our doing business in Europe more difficult, which could delay and reduce the scope our distribution and licensing agreements. Without access to the single E.U. market, it may be more challenging and costly to obtain intellectual property rights for our content within the U.K. or distribute our services in Europe. In addition, Brexit could lead to legal uncertainty and potentially divergent national laws and regulations as the U.K. determines which E.U. laws to replace and replicate. If there are changes to U.K. immigration policy as a result of Brexit, this could affect our employees and their ability to move freely between the E.U. member states for work related matters.

The announcement of Brexit has caused significant volatility in global stock markets and currency exchange rate fluctuations. With the expansion of our international operations, our exposure to exchange rate fluctuation has increased. This increase in exposure could have an adverse effect on our results of operations and net asset balances, as there can be no assurance that the downward trend of the British pound and the Euro will rebound. Brexit may also create global uncertainty, which may cause a decrease in consumer discretionary spending. These decreases in consumer discretionary spending may affect cable television and other video service subscriptions where our networks are distributed. This could lead to a decrease in the number of subscribers receiving our programming, which could in turn have a negative impact on our viewing subscribers and affiliation fee revenues. A decrease in our viewing subscribers would have a negative impact on the number of viewers watching our programming, possibly impacting the rates we are able to charge for advertising. Any of the foregoing factors may adversely affect our business, results of operations or financial position.

## ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table presents information about our repurchases of common stock that were made through open market transactions during the three months ended September 30, 2016.

| Period                                 | Total Number of Series C Shares Purchased | Average Price Paid per Share: Series C (a) | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (b)(c) | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (a)(b) |
|----------------------------------------|-------------------------------------------|--------------------------------------------|-----------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------|
| July 1, 2016 - July 31, 2016           | 7,972,132                                 | \$ 24.40                                   | 7,972,132                                                                               | \$ 1,346,932,865                                                                                |
| August 1, 2016 - August 30, 2016       | 2,403,100                                 | \$ 24.68                                   | 2,403,100                                                                               | \$ 1,287,614,063                                                                                |
| September 1, 2016 - September 30, 2016 | —                                         | \$ —                                       | —                                                                                       | \$ 1,287,614,063                                                                                |
| Total                                  | 10,375,232                                | \$ 24.47                                   | 10,375,232                                                                              | \$ 1,287,614,063                                                                                |

- (a) The amounts do not give effect to any fees, commissions or other costs associated with repurchases of shares.
- (b) Under the stock repurchase program, management is authorized to purchase shares of the Company's common stock from time to time through open market purchases or privately negotiated transactions at prevailing prices or pursuant to one or more accelerated stock repurchase agreements or other derivative arrangements as permitted by securities laws and other legal requirements, and subject to stock price, business and market conditions and other factors. As of September 30, 2016, the total amount authorized under the stock repurchase program was \$7.5

billion, and we had remaining authorization of \$1.3 billion for future repurchases under our common stock repurchase program, which will expire on October 8, 2017. We have been funding and expect to continue to fund stock repurchases through a combination of cash on hand and cash generated by operations. In the future, we may also choose to fund our stock repurchase program under our revolving credit facility or future financing transactions. There were no repurchases of our Series A and B common stock during the three months ended September 30, 2016. The Company first announced its stock repurchase program on August 3, 2010.

<sup>(c)</sup> We entered into an agreement with Advance/Newhouse to repurchase, on a quarterly basis, a number of shares of Series C convertible preferred stock convertible into a number of shares of Series C common stock equal to 3/7 of all shares of Series C common stock purchased under our stock repurchase program during the then most recently completed fiscal quarter. During the three months ended September 30, 2016, we converted and retired 2.2 million shares of converted Series C convertible preferred stock under the preferred stock conversion and repurchase arrangement for an aggregate purchase price of \$121 million. Based on the number of shares of Series C common stock purchased during the three months ended September 30, 2016, we expect to convert and retire 2.2 million shares of our Series C convertible preferred stock for \$108 million on or about November 3, 2016.

ITEM 6. Exhibits.

Exhibit No. Description

|         |                                                                                                                                                                                                                                  |
|---------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.1    | Amendment to Employment Agreement, dated September 30, 2016, between Andrew Warren and Discovery Communications, LLC (filed herewith)                                                                                            |
| 10.2    | Employment Agreement, dated October 3, 2016, between Dr. Gunnar Wiedenfels and Discovery Communications, LLC (filed herewith)                                                                                                    |
| 10.3    | Amendment to Employment Agreement, dated October 11, 2016, between Adria Alpert Romm and Discovery Communications, LLC (filed herewith)                                                                                          |
| 31.1    | Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as Amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith) |
| 31.2    | Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as Amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith) |
| 32.1    | Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)                                                           |
| 32.2    | Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)                                                           |
| 101.INS | XBRL Instance Document (filed herewith)†                                                                                                                                                                                         |
| 101.SCH | XBRL Taxonomy Extension Schema Document (filed herewith)†                                                                                                                                                                        |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document (filed herewith)†                                                                                                                                                          |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document (filed herewith)†                                                                                                                                                           |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document (filed herewith)†                                                                                                                                                                |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document (filed herewith)†                                                                                                                                                         |

†Attached as Exhibit 101 to this Quarterly Report on Form 10-Q are the following formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets as of September 30, 2016 and December 31, 2015, (ii) Consolidated Statements of Operations for the three and nine months ended September 30, 2016 and 2015, (iii) Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2016 and 2015, (iv) Consolidated Statements of Cash Flows for the nine months ended September 30, 2016 and 2015, (v) Consolidated Statement of Equity for the nine months ended September 30, 2016, and (vi) Notes to Consolidated Financial Statements.

SIGNATURES

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

DISCOVERY COMMUNICATIONS,  
INC.  
(Registrant)

Date: November 1, 2016    By: /s/ David M. Zaslav  
David M. Zaslav  
President and Chief Executive Officer

Date: November 1, 2016    By: /s/ Andrew Warren  
Andrew Warren  
Senior Executive Vice President and  
Chief Financial Officer

# EXHIBIT INDEX

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