

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

Discovery Communications, Inc.  
Form 10-K  
February 14, 2017

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

FORM 10-K

ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 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 (I.R.S. Employer  
incorporation or organization) 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)

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

Title of Each Class	Name of Each Exchange on Which Registered
Series A Common Stock, par value \$0.01 per share	The NASDAQ Global Select Market
Series B Common Stock, par value \$0.01 per share	The NASDAQ Global Select Market
Series C Common Stock, par value \$0.01 per share	The NASDAQ Global Select Market

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

None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

The aggregate market value of voting and non-voting common stock held by non-affiliates of the Registrant computed by reference to the last sales price of such stock, as of the last business day of the Registrant's most recently completed second fiscal quarter, which was June 30, 2016, was approximately \$9 billion.

Total number of shares outstanding of each class of the Registrant's common stock as of February 9, 2017 was:

Series A Common Stock, par value \$0.01 per share 152,634,023

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

Series C Common Stock, par value \$0.01 per share 229,509,862

#### DOCUMENTS INCORPORATED BY REFERENCE

Certain information required in Item 10 through Item 14 of Part III of this Annual Report on Form 10-K is incorporated herein by reference to the Registrant's definitive Proxy Statement for its 2017 Annual Meeting of Stockholders, which shall be filed with the Securities and Exchange Commission pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, within 120 days of the Registrant's fiscal year end.

DISCOVERY COMMUNICATIONS, INC.  
FORM 10-K  
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## PART I

### ITEM 1. Business.

For convenience, the terms “Discovery,” “DCI,” the “Company,” “we,” “us” or “our” are used in this Annual Report on Form 10-K to refer to both Discovery Communications, Inc. and collectively to Discovery Communications, Inc. and one or more of its consolidated subsidiaries, unless the context otherwise requires.

We were formed on September 17, 2008 as a Delaware corporation in connection with Discovery Holding Company (“DHC”) and Advance/Newhouse Programming Partnership (“Advance/Newhouse”) combining their respective ownership interests in Discovery Communications Holding, LLC (“DCH”) and exchanging those interests with and into Discovery (the “Discovery Formation”). As a result of the Discovery Formation, DHC and DCH became wholly-owned subsidiaries of Discovery, with Discovery becoming the successor reporting entity to DHC.

### OVERVIEW

We are a global media company that provides content across multiple distribution platforms, including linear platforms such as pay-television (“pay-TV”), free-to-air (“FTA”) and broadcast television, and various digital distribution platforms around the world. We also enter into content licensing agreements. As one of the world’s largest pay-TV programmers, we provide original and purchased content and live events to more than 2.8 billion cumulative viewers worldwide through networks that we wholly or partially own. We distribute customized content in the U.S. and over 220 other countries and territories in over 40 languages. Our global portfolio of networks includes prominent nonfiction television brands such as Discovery Channel, our most widely distributed global brand, TLC, Animal Planet, Investigation Discovery, Science and Velocity (known as Turbo outside of the U.S.). In addition to nonfiction brands, our portfolio includes Eurosport which we acquired in 2014, and is a leading sports entertainment provider across Europe, as well as Discovery Kids, a leading children's entertainment brand in Latin America. We also operate a portfolio of websites, digital direct-to-consumer products, production studios and curriculum-based education products and services.

Our objective is to create and sustain content niches through branded channels and businesses with strong consumer appeal to build viewership and engagement. Our strategy is to maximize the long-term distribution, ratings and profit potential of each of our branded networks. In addition to growing distribution and advertising revenues for our networks, we have expanded our portfolio by investing in new genres, namely sports with Eurosport and children's content with Discovery Kids, and in content distribution across platforms such as brand-aligned websites, web-native networks, on-line streaming, mobile devices, video on demand (“VOD”) and TV Everywhere products including our GO portfolio of applications in the U.S. and Discovery Kids Play (known as Discovery K!ds Play!) in Latin America, 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 content and own most rights to our content and footage, which enables us to leverage our library to quickly launch brands and services into new markets and on new platforms. Our content can be 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 digital content services, and International Networks, consisting primarily of international television networks and digital content services. In addition, Education and Other consists 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. Financial information for our segments and the geographical areas in which we do business is set forth in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and Note 21 to the consolidated financial statements included in Item 8, “Financial Statements and Supplementary Data” in this Annual

Report on Form 10-K. Our global brands are described below.

Subscriber statistics set forth in this Annual Report on Form 10-K include both wholly-owned networks and networks operated by equity method investees. Domestic subscriber statistics are based on Nielsen Media Research.

International subscriber and viewer statistics are derived from internal data coupled with external sources when available. As used herein, a “subscriber” is a single household that receives the applicable network from its cable television operator, DTH satellite operator, telecommunication service provider, or other television provider, including those who receive our networks from pay-TV providers without charge pursuant to various pricing plans that include free periods and/or free carriage. The term “cumulative subscribers”

refers to the sum of the total number of subscribers to each of our networks or content services. By way of example, two households that each receive five of our networks from their pay-TV provider represent two subscribers, but 10 cumulative subscribers. The term "viewer" is a single household that receives the signal from one of our networks using the appropriate receiving equipment without a subscription to a pay-TV provider.

Discovery Channel reached approximately 92 million subscribers in the U.S. and 7 million subscribers through a licensing arrangement with partners in Canada included in the U.S. Networks segment as of December 31, 2016.

Discovery Channel reached approximately 321 million subscribers in international markets as of December 31, 2016 including the Discovery HD Showcase brand.

Discovery Channel is dedicated to creating non-fiction content that informs and entertains its viewers about the world in all its wonder. The network offers a signature mix of high-end production values and cinematography across genres including science and technology, exploration, adventure and history and in-depth, behind-the-scenes glimpses at the people, places and organizations that shape and share our world.

Discovery Channel content includes Gold Rush, Naked and Afraid, Deadliest Catch, Fast N' Loud, Street Outlaws and Alaskan Bush People. Discovery Channel is also home to specials, including Shark Week, a long-running yearly week of programming, and Harley and the Davidsons, a scripted miniseries.

Target viewers are adults aged 25-54, particularly men.

TLC reached approximately 91 million subscribers in the U.S. as of December 31, 2016, and also reached 7 million subscribers in Canada that are included in the U.S. Networks segment as of December 31, 2016.

TLC content reached approximately 332 million viewers in international markets as of December 31, 2016.

TLC celebrates remarkable real-life stories without judgment.

Content on TLC includes The Little Couple, 90 Day Fiancé, Long Island Medium and Sister Wives.

Target viewers are adults aged 25-54, particularly women.

Animal Planet reached approximately 90 million subscribers in the U.S. and 2 million subscribers through a licensing arrangement with partners in Canada included in the U.S. Networks segment as of December 31, 2016. Animal Planet reached approximately 239 million subscribers in international markets as of December 31, 2016.

Animal Planet immerses viewers in the full range of life in the animal kingdom with rich, deep content via multiple platforms and offers animal lovers and pet owners access to a centralized online, television and mobile community for immersive, engaging, high-quality entertainment, information and enrichment.

Content on Animal Planet includes Puppy Bowl, River Monsters, Treehouse Masters and Pit Bulls & Parolees.

Target viewers are adults aged 25-54.

Investigation Discovery ("ID") reached approximately 85 million subscribers in the U.S. and 1 million subscribers through a licensing arrangement with partners in Canada included in the U.S. Networks segment as of December 31, 2016. ID reached approximately 135 million subscribers in international markets as of December 31, 2016.

ID is a leading mystery and suspense network. From harrowing crimes and salacious scandals to the in-depth investigation and heart-breaking mysteries that result, ID challenges our everyday understanding of culture, society and the human condition.

ID content includes Deadline: Crime with Tamron Hall, On The Case With Paula Zahn, Injustice Files, Homicide Hunter: Lt. Joe Kenda and Wives With Knives.

Target viewers are adults aged 25-54, particularly women.

Science Channel reached approximately 70 million subscribers in the U.S. and 2 million subscribers through a licensing arrangement with partners in Canada included in the U.S. Networks segment as of December 31, 2016.

Science Channel reached approximately 95 million subscribers in international markets as of December 31, 2016.

Science Channel is home for the thought provocateur and features programming willing to go beyond imagination to explore the unknown. Guided by curiosity, Science Channel looks at innovation in mysterious new worlds as well as in our own backyards.

Content on Science Channel includes Through the Wormhole with Morgan Freeman, Outrageous Acts of Science and How It's Made.

Target viewers are adults aged 25-54.



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Velocity reached approximately 71 million subscribers in the U.S. as of December 31, 2016. Velocity reached approximately 94 million combined subscribers and viewers in international markets, where the brand is known as Turbo, as of December 31, 2016.

Velocity engages viewers with a variety of high-octane, action-packed, intelligent thrilling automotive programming. In addition to series and specials exemplifying the very best of the automotive genre, the network broadcasts approximately 100 hours of live event coverage every year.

Content on Velocity includes Bitchin' Rides, Wheeler Dealers, Chasing Classic Cars and Barrett-Jackson Live.

Target viewers are adults aged 25-54, particularly men.

#### U.S. NETWORKS

U.S. Networks generated revenues of \$3.3 billion and adjusted operating income before depreciation and amortization ("Adjusted OIBDA") of \$1.9 billion during 2016, which represented 51% and 79% of our total consolidated revenues and Adjusted OIBDA, respectively. Our U.S. Networks segment principally consists of national television networks.

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 interest in OWN: Oprah Winfrey Network ("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 digital products, which include our GO suite of applications and our virtual reality product, Discovery VR; fees from providing sales representation and network distribution services and 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. We provide authenticated U.S. TV Everywhere products that are available to certain subscribers and connect viewers through GO applications 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 generated across multiple platforms and 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.

On December 2, 2016, the Company acquired a 39% minority interest in Group Nine Media, Inc. ("Group Nine Media"), a newly formed joint venture with Thrillist Media Group, Now This Media, and The Dodo. Group Nine Media is a millennial-focused, digital-first enterprise that seeks to create a dynamic publishing platform and content creation engine across the unique brands of the contributing investors. In exchange for our interest in the new venture,

we contributed \$100 million and certain digital networks businesses, comprising our digital network Seeker and production studio SourceFed. We recorded a pre-tax gain of \$50 million upon deconsolidation of Seeker and SourceFed Studios in connection with the transaction (See Note 3 to the

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accompanying consolidated financial statements.) We will account for the investment under the cost method. (See Note 4 to the accompanying consolidated financial statements.)

In addition to the global networks described in the overview section above, we operate networks in the U.S. that utilize the following brands:

We have a 60% controlling financial interest in Discovery Family and account for it as a consolidated subsidiary.

Discovery Family reached approximately 64 million subscribers in the U.S. as of December 31, 2016. Hasbro owns the remaining 40% of Discovery Family.

Discovery Family is programmed with a mix of original series, family-friendly movies, and programming from Discovery's non-fiction library and Hasbro Studios' popular animation franchises.

Content on Discovery Family includes My Little Pony: Friendship is Magic and Equestria Girls, Transformers Rescue Bots, Littlest Pet Shop, lifestyle programming and family-friendly movies.

Target viewers are children aged 2-11, family inclusive and adults aged 25-54.

AHC reached approximately 55 million subscribers in the U.S. as of December 31, 2016. AHC also reached approximately 1 million subscribers through a licensing arrangement with partners in Canada included in the U.S. Networks segment as of December 31, 2016.

- AHC provides a rare glimpse into major events that shaped our world, visionary leaders and unexpected heroes who made a difference, and the great defenders of our freedom.

Content on AHC includes Gunslingers, Apocalypse WWI and The American Revolution.

Target viewers are adults aged 35-64, particularly men.

Destination America reached approximately 54 million subscribers in the U.S. as of December 31, 2016.

Destination America celebrates the people, places and stories of the United States, and shows the tenacity, honesty, work ethic, humor and adventurousness that characterize our nation.

Content on Destination America includes Paranormal Lockdown, Mountain Monsters, Smoked, A Haunting, Railroad and Buying Alaska.

Target viewers are adults aged 18-54.

Discovery Life reached approximately 47 million subscribers in the U.S. as of December 31, 2016.

Discovery Life entertains viewers with gripping, real-life dramas, featuring storytelling that chronicles the human experience from cradle to grave, including forensic mysteries, amazing medical stories, emergency room trauma, baby and pregnancy programming, parenting challenges, and stories of extreme life conditions.

Content on Discovery Life includes I Didn't Know I Was Pregnant, Untold Stories of the E.R., Secret Sex Lives: Swingers and Bizarre E.R.

Target viewers are adults aged 25-54.

Our U.S. Networks segment owns an equity investment interest in OWN. OWN reached approximately 79 million subscribers in the U.S. as of December 31, 2016.

OWN is the first and only network named for, and inspired by, a single iconic leader. Oprah Winfrey's heart and creative instincts inform the brand and the magnetism of the channel. Ms. Winfrey provides leadership in programming and attracts superstar talent to join her in prime time, building a global community of like-minded viewers and leading that community to connect on social media and beyond.

Content on OWN includes Queen Sugar and Greenleaf, as well as Tyler Perry's original series The Haves and Have Nots and If Loving You is Wrong.

Target viewers are women aged 25-54.

## INTERNATIONAL NETWORKS

International Networks generated revenues of \$3.0 billion and Adjusted OIBDA of \$848 million during 2016, which represented 47% and 35% of our total consolidated revenues and Adjusted OIBDA, respectively. Our International Networks segment principally consists of national and pan-regional television networks and brands that are delivered across multiple distribution platforms. 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. As of December 31, 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 and broadcast networks in Europe and the Middle East and broadcast networks in Germany, Norway and Sweden, and continues to pursue further international expansion. FTA networks generate a significant portion of International Networks' revenue. The penetration and growth rates of television services vary across countries and territories depending on numerous factors including 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 has a large international distribution platform for its 37 networks, with as many as 13 networks distributed in any particular country or territory across the more than 220 countries and territories around the world. International Networks pursues distribution across all television platforms based on the specific dynamics of local markets and relevant commercial agreements. In addition to the global networks described in the overview section above, we operate networks internationally that utilize the following brands:

Eurosport is the leading sports entertainment provider across Europe with the following TV brands: Eurosport, Eurosport 2 and Eurosportnews, reaching viewers across Europe and Asia, as well as Eurosport Digital, which includes Eurosport Player and Eurosport.com.

Viewing subscribers reached by each brand as of December 31, 2016 were as follows: Eurosport: 133 million; Eurosport 2: 65 million; and Eurosportnews: 9 million.

Eurosport telecasts live sporting events with both local and pan-regional appeal and its events focus on winter sports, cycling and tennis, including the Tour de France and it is the home of Grand Slam tennis with all four tournaments. Important local sports rights include Bundesliga and MotoGP. In addition, Eurosport has increasingly invested in more exclusive and localized rights to drive local audience and commercial relevance.

We have acquired the exclusive broadcast rights across all media platforms throughout Europe for the four Olympic Games between 2018 and 2024 for €1.3 billion (\$1.5 billion as of December 31, 2016). The broadcast rights exclude France for the Olympic Games in 2018 and 2020, and exclude Russia. In addition to FTA broadcasts for the Olympic Games, many of these events are set to air on Eurosport's pay-TV and digital platforms.

On November 2, 2016, we announced a long-term agreement and joint venture partnership with BAMTech ("MLBAM") a technology services and video streaming company, and subsidiary of Major League Baseball's digital business, that includes the formation of BamTech Europe, a joint venture that will provide digital technology services to a broad set of both sports and entertainment clients across Europe.

As of December 31, 2016, DMAX reached approximately 103 million viewers through FTA networks, according to internal estimates.

DMAX is a men's factual entertainment channel in Asia and Europe.

Discovery Kids reached approximately 121 million viewers, according to internal estimates, as of December 31, 2016.  
Discovery Kids is a leading children's network in Latin America and Asia.

Our International Networks segment also owns and operates the following regional television networks, which reached the following number of subscribers and viewers via pay and FTA or broadcast networks, respectively, as of December 31, 2016:

	Television Service	International Subscribers/Viewers (millions)
Quest	FTA	77
Nordic broadcast networks <sup>(a)</sup>	Broadcast	35
Giallo	FTA	25
Frisbee	FTA	25
Focus	FTA	25
K2	FTA	25
DeeJay TV	FTA	25
Discovery HD World	Pay	24
Shed	Pay	12
Discovery History	Pay	10
Discovery World	Pay	6
Discovery en Espanol (U.S.)	Pay	6
Discovery Familia (U.S.)	Pay	6

<sup>(a)</sup> Number of subscribers corresponds to the sum of the subscribers to each of the Nordic broadcast networks in Sweden, Norway, Finland and Denmark subject to retransmission agreements with pay-TV providers. The Nordic broadcast networks include Kanal 5, Kanal 9, and Kanal 11 in Sweden, TV Norge, MAX, FEM and VOX in Norway, TV 5, Kutonen, and Friei in Finland, and Kanal 4, Kanal 5, 6'eren, and Canal 9 in Denmark.

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 and across distribution platforms, similar to U.S. Networks. Advertising revenue is dependent upon a number of factors, including the development of pay and FTA 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 on multiple platforms. 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 television advertising revenue comes from increasing advertising pricing and ratings on our existing television networks. During 2016, distribution, advertising and other revenues were 55%, 42% and 2%, respectively, of total net revenues for this segment. While the Company has traditionally operated cable networks, in recent years an increasing portion of the Company's international advertising revenue is generated by FTA or broadcast networks, unlike U.S. Networks. During 2016, pay-TV networks generated 46% of International Networks' advertising revenue and FTA or broadcast networks generated 54% of International Networks' advertising revenue.

The Company's International Networks distribute content through localized programming disseminated via more than 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. A portion 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 24, 2016, the Company acquired a 27.5% interest in Mega TV, an FTA channel in Chile owned by Bethia Comunicaciones, for \$53 million, which we account for using the equity method.

On June 23, 2016, the 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, as described in Item 1A, Risk Factors, below. We continue to monitor 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, which includes both Eurosport International and Eurosport France, which was accounted for as an equity method investment. On May 30, 2014, we acquired a controlling 31% interest in Eurosport International for €259 million (\$351 million) and committed to acquire a similar controlling interest in Eurosport France upon resolution of certain regulatory matters. The outstanding regulatory matters in France were subsequently resolved, and 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% stake in Eurosport. (See Note 3 to the accompanying consolidated financial statements.) On October 1, 2015, we acquired the remaining 49% of Eurosport for €491 million (\$548 million). (See Note 11 to the accompanying consolidated financial statements.)

On October 7, 2015, we recorded a pretax loss of \$5 million for the contribution of our Russian business to a joint venture (the "New Russian Business") with a Russian media company, National Media Group ("NMG"). We now hold a 20% interest in the New Russian Business, which was established to comply with changes in Russian legislation limiting foreign ownership of media companies. We no longer consolidate the contributed Russian business, which was a component of our International Networks segment and we now account for our ownership interest in the New Russian Business as an equity method investment. (See Note 3 to the accompanying consolidated financial statements.)

On June 30, 2015, we sold our radio businesses 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 paid on April 1, 2016. The cumulative gain on the disposal of the radio business is \$1 million. Based on a change in our estimate of the fair value of contingent consideration, we recorded a pre-tax gain of \$13 million for the year ended December 31, 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 3 to the accompanying consolidated financial statements.)

In 2015, we acquired a 100% equity interest in several other unrelated businesses for total cash and contingent consideration of \$91 million, net of cash acquired. The acquisitions included a FTA network in Italy, cable networks in Denmark, a FTA network in Turkey and a pay-TV sports channel in Asia. (See Note 3 to the accompanying consolidated financial statements.) All acquired businesses are components of our International Networks segment. Acquisitions are included in our operating results upon their acquisition date and dispositions are excluded from our operating results following their disposition date. (See Note 3 to the accompanying consolidated financial statements.)

## EDUCATION AND OTHER

Education and Other generated revenues of \$174 million during 2016, which represented 3% of our total 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 hard copy curriculum-based content. Other is comprised of production studios that develop content for our networks and other 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 have been eliminated from the results of operations for Education and Other. On November 12, 2015, we paid \$195 million to acquire 5 million shares, or approximately 3%, of Lions Gate Entertainment Corp. ("Lionsgate"), an entertainment company involved in the production of movies and television which is accounted for as an available-for-sale ("AFS") security. During 2016, we 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 the fair value of the investment as of September 30, 2016. (See Note 4 to the accompanying consolidated financial statements.)

On September 23, 2014, the Company acquired a 50% equity method ownership interest in All3Media, a production studio company, with an enterprise value of £556 million (\$912 million) for a cash payment of approximately £90 million (\$147 million). All3Media recapitalized its debt structure to effect the transaction. (See Note 4 to the accompanying consolidated financial statements.)

On February 28, 2014, we acquired Raw TV Limited, a factual entertainment production company in the U.K., to improve the sourcing of content for our networks. (See Note 3 to the accompanying consolidated financial statements.)

## CONTENT DEVELOPMENT

Our content development strategy is designed to increase viewership, maintain innovation and quality leadership, and provide value for our network distributors and advertising customers. Our content is sourced from a wide range of third-party producers, which include some of the world's leading nonfiction production companies, as well as independent producers and wholly-owned production studios.

Our production arrangements fall into three categories: produced, coproduced and licensed. Produced content includes content that we engage third parties or wholly owned production studios to develop and produce. We retain editorial control and own most or all of the rights, in exchange for paying all development and production costs. Production of digital-first content such as virtual reality and short-form video is typically done through wholly-owned production studios. Coproduced content refers to program rights on which we have collaborated with third parties to finance and develop either because at times world-wide rights are not available for acquisition or we save costs by collaborating with third parties. Licensed content is comprised of films or series that have been produced by third parties. Payments for sports rights made in advance of the event are recognized as prepaid content license assets.

International Networks maximizes the use of content from our U.S. Networks. Our non-fiction content tends to be culturally neutral and maintains its relevance for an extended period of time. As a result, a significant amount of our non-fiction content translates well across international borders and is made even more accessible through extensive use of dubbing and subtitles in local languages. 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. International Networks executes a localization strategy by offering content from U.S. Networks, customized content and localized schedules via our distribution feeds. While our International Networks segment maximizes the use of content from U.S. Networks, we also develop local content that is tailored to individual market preferences and license the rights to air films, television series and sporting events from third-party producers.

Our largest single cost is content expense, which includes content amortization, content impairment and production costs for languaging. We amortize the cost of capitalized content rights based on the proportion that the current year's estimated revenues bear to the estimated remaining total lifetime revenues, which normally results in an accelerated amortization method over the estimated useful lives. However, certain networks also utilize a straight-line method of

amortization over the estimated useful lives of the content. Content is amortized primarily over periods of three to four years. The costs for multi-year sports programming arrangements are expensed when the event is broadcast based on the estimated relative value of each season in the arrangement. Content assets are reviewed for impairment when impairment indicators are present, such as low viewership or limited expected use. Impairment losses are recorded for content asset carrying value in excess of net realizable value.

## REVENUES

We generate revenues principally from fees charged to operators who distribute our network content, which primarily include cable, DTH satellite, telecommunication and digital service providers and advertising sold on our networks and digital products. Other transactions include curriculum-based products and services, affiliate and advertising sales representation services, production of content, content licenses and the licensing of our brands for consumer products. During 2016, distribution, advertising and other revenues were 50%, 45% and 5%, respectively, of consolidated revenues. No individual customer represented more than 10% of our total consolidated revenues for 2016, 2015 or 2014.

### Distribution

Distribution revenue includes fees charged for the right to view Discovery's network branded content made available to customers through a variety of distribution platforms and viewing devices. The largest component of distribution revenue is comprised of linear distribution services for rights to our networks from cable, DTH satellite and telecommunication service providers. We have contracts with distributors representing most cable and satellite service providers around the world, including the largest operators in the U.S. and major international distributors. Typically, our television networks are aired pursuant to multi-year carriage agreements that provide for the level of carriage that Discovery's networks will receive, and, if applicable, for scheduled graduated annual rate increases. Carriage of our networks depends upon package inclusion, such as whether networks are on the more widely distributed, broader packages or lesser-distributed, specialized packages. Distribution revenues are largely dependent on the rates negotiated in the agreements, the number of subscribers that receive our networks or content, the number of platforms covered in the distribution agreement, and the market demand for the content that we provide. From time to time, renewals of multi-year carriage agreements include significant initial year one market adjustments to re-set subscriber rates, which then increase at rates lower than the initial increase in the following years. We have provided distributors launch incentives, in the form of cash payments or free periods, to carry our networks.

In the U.S., more than 90% of distribution revenues come from the top 10 distributors, with whom we have agreements that expire at various times from 2017 through 2021. Outside of the U.S., approximately 46% of distribution revenue comes from the top 10 distributors. Distribution fees are typically collected ratably throughout the year. International television markets vary in their stages of development. Some, notably the U.K., are more advanced digital multi-channel television markets, while others operate in the analog environment with varying degrees of investment from distributors in expanding channel capacity or converting to digital.

Distribution revenue also includes fees charged for bulk content arrangements and other subscription services for episodic content. These digital distribution revenues are impacted by the quantity, as well as the quality, of the content Discovery provides.

### Advertising

Our advertising revenue is generated across multiple platforms and consists of consumer advertising, which is sold primarily on a national basis in the U.S. and on a pan-regional or local-language feed basis outside the U.S. Advertising contracts generally have a term of one year or less.

In the U.S., we sell advertising time in the upfront and scatter markets. In the upfront market, advertisers buy advertising time for the upcoming season and by purchasing in advance often receive discounted rates. In the scatter market, advertisers buy advertising time close to the time when the commercials will be run and often pay a premium. The mix between the upfront and scatter markets is based upon a number of factors, such as pricing, demand for advertising time and economic conditions. Outside the U.S., advertisers typically buy advertising closer to the time when the commercials will be run. In developing pay-TV markets, we expect advertising revenue growth will result from subscriber growth, our localization strategy, and the shift of advertising spending from broadcast to pay-TV. In mature markets, such as the U.S. and Western Europe, high proportions of market penetration and distribution are unlikely to drive rapid revenue growth. Instead, growth in advertising sales comes from increasing viewership and pricing and launching new services, either in pay-TV, broadcast, or FTA television environments.

Advertising revenue is dependent upon a number of factors, including the stage of development of television markets, the popularity of FTA television, the number of subscribers to our channels, viewership demographics, the popularity

of our content and our ability to sell commercial time over a group of channels. Revenue from advertising is subject to seasonality, market-based variations and general economic conditions. Advertising revenue is typically highest in the second and fourth quarters. In some cases, advertising sales are subject to ratings guarantees that require us to provide additional advertising time if the guaranteed audience levels are not achieved.

We also generate revenue from the sale of advertising through our digital products on a stand-alone basis and as part of advertising packages with our television networks.

#### Other

We also generate income associated with curriculum-based products and services, the licensing of our brands for consumer products and third-party content sales, and content production from our production studios.

#### COMPETITION

Providing content across various distribution platforms is a highly competitive business worldwide. We experience competition for the development and acquisition of content, distribution of our content, sale of commercial time on our networks and viewership. There is competition from other production studios, other television networks, and the internet for the acquisition of content and creative talent such as writers, producers and directors. Our ability to produce and acquire popular content is an important competitive factor for the distribution of our content, attracting viewers and the sale of advertising. Our success in securing popular content and creative talent depends on various factors such as the number of competitors providing content that targets the same genre and audience, the distribution of our content, viewership, and the production, marketing and advertising support we provide.

Our networks compete with other television networks, including broadcast, cable and local, for the distribution of our content and fees charged to cable television operators, DTH satellite service providers, and other distributors that carry our content. Our ability to secure distribution agreements is necessary to ensure the retention of our audiences. Our contractual agreements with distributors are renewed or renegotiated from time to time in the ordinary course of business. Growth in the number of networks distributed, consolidation and other market conditions in the cable and satellite distribution industry, and increased popularity of other platforms may adversely affect our ability to obtain and maintain contractual terms for the distribution of our content that are as favorable as those currently in place. The ability to secure distribution agreements is dependent upon the production, acquisition and packaging of original content, viewership, the marketing and advertising support and incentives provided to distributors, the product offering across a series of networks within a region, and the prices charged for carriage.

Our networks and digital products compete for the sale of advertising with other television networks, including broadcast, cable and local networks, online and mobile outlets, radio content and print media. Our success in selling advertising is a function of the size and demographics of our audiences, quantitative and qualitative characteristics of the audience of each network, the perceived quality of the network and of the particular content, the brand appeal of the network and ratings as determined by third-party research companies, prices charged for advertising and overall advertiser demand in the marketplace.

Our networks and digital products also compete for their target audiences with all forms of content and other media provided to viewers, including broadcast, cable and local networks, pay-per-view and VOD services, DVDs, online activities and other forms of news, information and entertainment.

Our education business competes with other providers of curriculum-based products and services to schools. Our production studios compete with other production and media companies for talent.

#### INTELLECTUAL PROPERTY

Our intellectual property assets include copyrights in content, trademarks in brands, names and logos, websites, and licenses of intellectual property rights from third parties.

We are fundamentally a content company and the protection of our brands and content is of primary importance. To protect our intellectual property assets, we rely upon a combination of copyright, trademark, unfair competition, trade secret and Internet/domain name statutes and laws, and contract provisions. However, there can be no assurance of the degree to which these measures will be successful. Moreover, effective intellectual property protection may be either unavailable or limited in certain foreign territories. Policing unauthorized use of our products and services and related intellectual property is difficult and costly. We seek to limit unauthorized use of our intellectual property through a combination of approaches. However, the steps taken to prevent the infringement of our intellectual property by unauthorized third parties may not work.

Third parties may challenge the validity or scope of our intellectual property from time to time, and the success of any such challenges could result in the limitation or loss of intellectual property rights. Irrespective of their validity, such claims may result in substantial costs and diversion of resources which could have an adverse effect on our operations. In addition, piracy, which encompasses the theft of our signal, and unauthorized use of our content, in the digital

environment continues to present a threat to revenues from products and services based on our intellectual property.

**REGULATORY MATTERS**

Our businesses are subject to and affected by regulations of U.S. federal, state and local government authorities, and our international operations are subject to laws and regulations of the countries and international bodies, such as the E.U., in which we

operate. Content networks, such as those owned by us, are regulated by the Federal Communications Commission (“FCC”) in certain respects if they are affiliated with a cable television operator. Other FCC regulations, although imposed on cable television operators and direct broadcast satellite (“DBS”) operators, affect content networks indirectly. The rules, regulations, policies and procedures affecting our businesses are constantly subject to change. These descriptions are summary in nature and do not purport to describe all present and proposed laws and regulations affecting our businesses.

#### Program Access

The FCC’s program access rules prevent a satellite or cable content vendor in which a cable operator has an “attributable” ownership interest from discriminating against unaffiliated multichannel video programming distributors (“MVPDs”), such as cable and DBS operators, in the rates, terms and conditions for the sale or delivery of content. These rules also permit MVPDs to initiate complaints to the FCC against content networks if an MVPD claims it is unable to obtain rights to carry the content network on nondiscriminatory rates, terms or conditions. The FCC allowed a previous blanket prohibition on exclusive arrangements with cable operators to expire in October 2012, but will consider case-by-case complaints that exclusive contracts between cable operators and cable-affiliated programmers significantly hinder or prevent an unaffiliated MVPD from providing satellite or cable programming.

#### “Must-Carry”/Retransmission Consent

The Cable Television Consumer Protection and Competition Act of 1992 (the “Act”) imposes “must-carry” regulations on cable systems, requiring them to carry the signals of most local broadcast television stations in their market. DBS systems are also subject to their own must-carry rules. The FCC’s implementation of “must-carry” obligations requires cable operators and DBS providers to give broadcasters preferential access to channel space. This reduces the amount of channel space that is available for carriage of our networks by cable and DBS operators. The Act also established retransmission consent, which refers to a broadcaster’s right to require MVPDs, such as cable and satellite operators, to obtain the broadcaster’s consent before distributing the broadcaster’s signal to the MVPDs’ subscribers. Broadcasters have traditionally used the resulting leverage from demand for their must-have broadcast content to obtain carriage for their affiliated networks. Increasingly, broadcasters are additionally seeking substantial monetary compensation for granting carriage rights for their must-have broadcast content. Such increased financial demands on distributors reduce the content funds available for independent programmers not affiliated with broadcasters, such as us.

#### Closed Captioning and Advertising Restrictions

Certain of our networks must provide closed-captioning of content. Our content and digital products intended primarily for children 12 years of age and under must comply with certain limits on advertising, and commercials embedded in our networks’ content stream adhere to certain standards for ensuring that those commercials are not transmitted at louder volumes than our program material. The 21<sup>st</sup> Century Communications and Video Accessibility Act of 2010 requires us to provide closed captioning on certain IP-delivered video content that we offer.

#### Obscenity Restrictions

Network distributors are prohibited from transmitting obscene content, and our affiliation agreements generally require us to refrain from including such content on our networks.

#### Violent Programming

In 2007, the FCC issued a report on violence in programing that recommended Congress prohibit the availability of violent programming, including cable programming, during hours when children are likely to be watching. Recent events have led to a renewed interest by some members of Congress in the alleged effects of violent programming, which could lead to a renewal of interest in limiting the availability of such programming or prohibiting it.

#### Regulation of the Internet

We operate several digital products and websites that we use to distribute information about our programs and to offer consumers the opportunity to purchase consumer products and services. Internet services are now subject to regulation in the U.S. relating to the privacy and security of personally identifiable user information and acquisition of personal information from children under 13, including the federal Children’s Online Privacy Protection Act and the federal Controlling the Assault of Non-Solicited Pornography and Marketing Act. In addition, a majority of states have enacted laws that impose data security and security breach obligations. Additional federal and state laws and



regulations may be adopted with respect to the Internet or other on-line services, covering such issues as user privacy, child safety, data security, advertising, pricing, content, copyrights and trademarks, access by persons with disabilities, distribution, taxation and characteristics and quality of products and services. In addition, to the extent we offer products and services to on-line consumers outside the U.S., the laws and regulations of foreign jurisdictions,

including, without limitation, consumer protection, privacy, advertising, data retention, intellectual property, and content limitations, may impose additional compliance obligations on us.

#### Foreign Laws and Regulations

The foreign jurisdictions in which our networks are offered have, in varying degrees, laws and regulations governing our businesses.

#### EMPLOYEES

As of December 31, 2016, we had approximately 7,000 employees, including full-time and part-time employees of our wholly-owned subsidiaries and consolidated ventures.

#### AVAILABLE INFORMATION

All of our filings with the U.S. Securities and Exchange Commission (the "SEC"), including reports on Form 10-K, Form 10-Q and Form 8-K, and all amendments to such filings are available free of charge at the investor relations section of our website, [www.discoverycommunications.com](http://www.discoverycommunications.com), as soon as reasonably practicable after such material is filed with, or furnished to, the SEC. Our annual report, corporate governance guidelines, code of business ethics, audit committee charter, compensation committee charter, and nominating and corporate governance committee charter are also available on our website. In addition, we will provide a printed copy of any of these documents, free of charge, upon written request to: Investor Relations, Discovery Communications, Inc., 850 Third Avenue, 8th Floor, New York, NY 10022-7225. Additionally, the SEC maintains a website at <http://www.sec.gov> that contains quarterly, annual and current reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, including the Company. The public may also read and copy any materials that the Company files with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The information contained on our website is not part of this Annual Report on Form 10-K and is not incorporated by reference herein.

#### ITEM 1A. Risk Factors.

Investing in our securities involves risk. In addition to the other information contained in this report, you should consider the following risk factors before investing in our securities.

There has been a shift in consumer behavior as a result of technological innovations and changes in the distribution of content, which may affect our viewership and the profitability of our business in unpredictable ways.

Technology and business models in our industry continue to evolve rapidly. Consumer behavior related to changes in content distribution and technological innovation affect our economic model and viewership in ways that are not entirely predictable.

Consumers are increasingly viewing content on a time-delayed or on-demand basis from traditional distributors and from connected apps and websites and on a wide variety of screens, such as televisions, tablets, mobile phones and other devices. Additionally, devices that allow users to view television programs on a time-shifted basis and technologies that enable users to fast-forward or skip programming, including commercials, such as DVRs and portable digital devices and systems that enable users to store or make portable copies of content may affect the attractiveness of our offerings to advertisers and could therefore adversely affect our revenues. There is increased demand for short-form, user-generated and interactive content, which have different economic models than our traditional content offerings. Digital downloads, rights lockers, rentals and subscription services are competing for consumer preferences with each other and with traditional physical distribution of DVDs and Blu-ray discs. Each distribution model has different risks and economic consequences for us, so the rapid evolution of consumer preferences may have an economic impact that is not completely predictable. Distribution windows are also evolving, potentially affecting revenues from other windows. If we cannot ensure that our distribution methods and content are responsive to our target audiences, our business could be adversely affected.

Consolidation among cable and satellite providers, both domestically and internationally, could have an adverse effect on our revenue and profitability.

Consolidation among cable and satellite operators has given the largest operators considerable leverage in their relationships with programmers, including us. In the U.S., approximately 90% of our distribution revenues come from

the top 10 distributors. For the International Networks segment, approximately 46% of distribution revenue comes from the 10 largest

distributors. We currently have agreements in place with the major cable and satellite operators in U.S. Networks and International Networks which expire at various times through 2021. Some of our largest distributors have combined, and as a result, have gained, or may gain, market power, which could affect our ability to maximize the value of our content through those platforms. In addition, many of the countries and territories in which we distribute our networks also have a small number of dominant distributors. Continued consolidation within the industry could reduce the number of distributors to carry our programming, subject our affiliate fee revenue to greater volume discounts, and further increase the negotiating leverage of the cable and satellite television system operators which could have an adverse effect on our financial condition or results of operations.

The success of our business depends on the acceptance of our entertainment content by our U.S. and foreign viewers, which may be unpredictable and volatile.

The production and distribution of entertainment content are inherently risky businesses because the revenue we derive and our ability to distribute our content depend primarily on consumer tastes and preferences that often change in unpredictable ways. Our success depends on our ability to consistently create and acquire content that meets the changing preferences of viewers in general, in special interest groups, in specific demographic categories and in various international marketplaces. The commercial success of our content also depends upon the quality and acceptance of competing content available in the applicable marketplace. Other factors, including the availability of alternative forms of entertainment and leisure time activities, general economic conditions, piracy, and growing competition for consumer discretionary spending may also affect the audience for our content. Audience sizes for our media networks are critical factors affecting both the volume and pricing of advertising revenue that we receive, and the extent of distribution and the license fees we receive under agreements with our distributors. Consequently, reduced public acceptance of our entertainment content may decrease our audience share and adversely affect our results of operations.

We face cybersecurity and similar risks, which could result in the disclosure of confidential information, disruption of our programming services, damage to our brands and reputation, legal exposure and financial losses.

Our on-line, mobile and app offerings, as well as our internal systems, involve the storage and transmission of proprietary information, and we and our partners rely on various technology systems in connection with the production and distribution of our programming. Our systems may be breached due to employee error, computer malware, viruses, hacking and phishing attacks, or otherwise. Additionally, outside parties may attempt to fraudulently induce employees or users to disclose sensitive or confidential information in order to gain access to data. Because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and often are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. Any such breach or unauthorized access could result in a loss of our proprietary information, which may include user data, a disruption of our services or a reduction of the revenues we are able to generate from such services, damage to our brands and reputation, a loss of confidence in the security of our offerings and services, and significant legal and financial exposure, each of which could potentially have an adverse effect on our business.

Our businesses operate in highly competitive industries.

The entertainment and media programming industries in which we operate are highly competitive. We compete with other programming networks for distribution, viewers and advertising. We also compete for viewers with other forms of media entertainment, such as home video, movies, periodicals, on-line and mobile activities. In particular, websites and search engines have seen significant advertising growth, a portion of which has moved from traditional cable network and satellite advertisers. Businesses, including ours, that offer multiple services, or that may be vertically integrated and offer both video distribution and programming content, may face closer regulatory review from the competition authorities in the countries in which we currently have operations. If our distributors have to pay higher rates to holders of sports broadcasting rights, it might be difficult for us to negotiate higher rates for distribution of our networks. Our on-line businesses compete for users and advertising in the broad and diverse market of free and subscription Internet-delivered services. Our commerce business competes against a wide range of competitive retailers selling similar products. Our curriculum-based video business and digital textbook business compete with

other providers of education products to schools. The ability of our businesses to compete successfully depends on a number of factors, including our ability to consistently supply high quality and popular content, access our niche viewership with appealing category-specific content, adapt to new technologies and distribution platforms and achieve widespread distribution. There can be no assurance that we will be able to compete successfully in the future against existing or new competitors, or that increasing competition will not have a material adverse effect on our business, financial condition or results of operations.

Failure to renew, renewal with less favorable terms, or termination of our affiliation agreements may cause a decline in our revenue.

Because our networks are licensed on a wholesale basis to distributors, such as cable and satellite operators, which in turn distribute them to consumers, we are dependent upon the maintenance of affiliation agreements with these operators. These

affiliation agreements generally provide for the level of carriage our networks will receive, such as channel placement and programming package inclusion (widely distributed, broader programming packages compared to lesser distributed, specialized programming packages) and for payment of a license fee to us based on the number of subscribers that receive our networks. While the number of subscribers associated with our networks impacts our ability to generate advertising revenue, these per subscriber payments also represent a significant portion of our revenue. Our affiliation agreements generally have a limited term which varies by market and distributor, and there can be no assurance that these affiliation agreements will be renewed in the future, or renewed on terms that are favorable to us. A reduction in the license fees that we receive per subscriber or in the number of subscribers for which we are paid, including as a result of a loss or reduction in carriage for our networks, could adversely affect our distribution revenue. Such a loss or reduction in carriage could also decrease the potential audience for our programs thereby adversely affecting our advertising revenue. In addition, our affiliation agreements are complex and individually negotiated. If we were to disagree with one of our counterparties on the interpretation of an affiliation agreement, our relationship with that counterparty could be damaged and our business could be negatively affected. Interpretation of some terms of our distribution agreements may have an adverse effect on the distribution payments we receive under those agreements.

Some of our distribution agreements contain “most favored nation” clauses. These clauses typically provide that if we enter into an agreement with another distributor which contains certain more favorable terms, we must offer some of those terms to our existing distributors. We have entered into a number of distribution agreements with terms that differ in some respects from those contained in other agreements. While we believe that we have appropriately complied with the most favored nation clauses included in our distribution agreements, these agreements are complex and other parties could reach a different conclusion that, if correct, could have an adverse effect on our financial condition or results of operations.

We are subject to risks related to our international operations.

We have operations through which we distribute programming outside the United States. As a result, our business is subject to certain risks inherent in international business, many of which are beyond our control. These risks include:

- laws and policies affecting trade and taxes, including laws and policies relating to the repatriation of funds and withholding taxes, and changes in these laws;
- changes in local regulatory requirements, including restrictions on content, imposition of local content quotas and restrictions on foreign ownership;
- differing degrees of protection for intellectual property and varying attitudes towards the piracy of intellectual property;
- significant fluctuations in foreign currency value;
- currency exchange controls;
- the instability of foreign economies and governments;
- war and acts of terrorism;
- anti-corruption laws and regulations such as the Foreign Corrupt Practices Act and the U.K. Bribery Act that impose stringent requirements on how we conduct our foreign operations and changes in these laws and regulations;
- foreign privacy and data protection laws and regulation and changes in these laws; and
- shifting consumer preferences regarding the viewing of video programming.

Events or developments related to these and other risks associated with international trade could adversely affect our revenues from non-U.S. sources, which could have a material adverse effect on our business, financial condition, operating results, liquidity and prospects.

Furthermore, some foreign markets where we and our partners operate may be more adversely affected by current economic conditions than the U.S. We also may incur substantial expense as a result of changes, including the imposition of new restrictions, in the existing economic or political environment in the regions where we do business. Acts of terrorism, hostilities, or financial, political, economic or other uncertainties could lead to a reduction in revenue or loss of investment, which could adversely affect our results of operations. Global economic conditions may have an adverse effect on our business.

Our business is significantly affected by prevailing economic conditions and by disruptions to financial markets. We derive substantial revenues from advertisers, and these expenditures are sensitive to general economic conditions and consumer buying patterns. Financial instability or a general decline in economic conditions in the U.S. and other countries where our networks are distributed could adversely affect advertising rates and volume, resulting in a decrease in our advertising revenues.

Decreases in consumer discretionary spending in the U.S. and other countries where our networks are distributed may affect cable television and other video service subscriptions, in particular with respect to digital service tiers on which certain of our programming networks are carried. This could lead to a decrease in the number of subscribers receiving our programming from multi-channel video programming distributors, which could have a negative impact on our viewing subscribers and affiliation fee revenues. Similarly, a decrease in viewing subscribers would also have a negative impact on the number of viewers actually watching the programs on our programming networks, which could also impact the rates we are able to charge advertisers.

Economic conditions affect a number of aspects of our businesses worldwide and impact the businesses of our partners who purchase advertising on our networks and might reduce their spending on advertising. Economic conditions can also negatively affect the ability of those with whom we do business to satisfy their obligations to us. The general worsening of current global economic conditions could adversely affect our business, financial condition or results of operations, and the worsening of economic conditions in certain parts of the world, specifically, could impact the expansion and success of our businesses in such areas.

As a company that has operations in the United Kingdom, the vote by the United Kingdom to leave 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.

Domestic and foreign laws and regulations could adversely impact our operation results.

Programming services like ours, and the distributors of our services, including cable operators, satellite operators and other multi-channel video programming distributors, are regulated by U.S. federal laws and regulations issued and administered by various federal agencies, including the FCC, as well as by state and local governments, in ways that affect the daily conduct of our video content business. See the discussion under “Business – Regulatory Matters” above. The U.S. Congress, the FCC and the courts currently have under consideration, and may adopt or interpret in the future, new laws, regulations and policies regarding a wide variety of matters that could, directly or indirectly, affect the operations of our U.S. media properties or modify the terms under which we offer our services and operate. For example, any changes to the laws and regulations that govern the services or signals that are carried by cable



television operators or our other distributors may result in less capacity for other content services, such as our networks, which could adversely affect our revenue.

Similarly, the foreign jurisdictions in which our networks are offered have, in varying degrees, laws and regulations governing our businesses. Programming businesses are subject to regulation on a country-by-country basis. Changes in regulations imposed by foreign governments could also adversely affect our business, results of operations and ability to expand our operations beyond their current scope.

Financial markets are subject to volatility and disruptions that may affect our ability to obtain or increase the cost of financing our operations and our ability to meet our other obligations.

Increased volatility and disruptions in the U.S. and global financial and equity markets may make it more difficult for us to obtain financing for our operations or investments or increase the cost of obtaining financing. Our borrowing costs can be

affected by short and long-term debt ratings assigned by independent rating agencies which are based, in significant part, on our performance as measured by credit metrics such as interest coverage and leverage ratios. A low rating could increase our cost of borrowing or make it more difficult for us to obtain future financing. Unforeseeable changes in foreign currencies could negatively impact our results of operations and calculations of interest coverage and leverage ratios.

Foreign exchange rate fluctuations may adversely affect our operating results and financial conditions.

We have significant operations in a number of foreign jurisdictions and certain of our operations are conducted and certain of our debt obligations are denominated in foreign currencies. As a result, there is exposure to foreign currency risk as the Company enters into transactions and makes investments denominated in multiple currencies. The value of these currencies fluctuates relative to the U.S. dollar. Our consolidated financial statements are denominated in U.S. dollars, and to prepare those financial statements we must translate the amounts of the assets, liabilities, net sales, other revenues and expenses of our operations outside of the U.S. from local currencies into U.S. dollars using exchange rates for the current period. As we have expanded our international operations, our exposure to exchange rate fluctuations has increased. This increased exposure could have an adverse effect on our reported results of operations and net asset balances. There is no assurance that downward trending currencies will rebound or that stable currencies will remain unchanged in any period or for any specific market.

Our inability to successfully acquire and integrate other businesses, assets, products or technologies could harm our operating results.

Our success may depend on opportunities to buy other businesses or technologies that could complement, enhance or expand our current business or products or that might otherwise offer us growth opportunities. We have acquired, and have made strategic investments in, a number of companies (including through joint ventures) in the past, and we expect to make additional acquisitions and strategic investments in the future. Such transactions may result in dilutive issuances of our equity securities, use of our cash resources, and incurrence of debt and amortization expenses related to intangible assets. Any acquisitions and strategic investments that we are able to identify and complete may be accompanied by a number of risks, including:

- the difficulty of assimilating the operations and personnel of acquired companies into our operations;
- the potential disruption of our ongoing business and distraction of management;
- the incurrence of additional operating losses and operating expenses of the businesses we acquired or in which we invested;
- the difficulty of integrating acquired technology and rights into our services and unanticipated expenses related to such integration;
- the failure to successfully further develop an acquired business or technology and any resulting impairment of amounts currently capitalized as intangible assets;
- the failure of strategic investments to perform as expected or to meet financial projections;
- the potential for patent and trademark infringement and data privacy and security claims against the acquired companies, or companies in which we have invested;
- litigation or other claims in connection with acquisitions, acquired companies, or companies in which we have invested;
- the impairment or loss of relationships with customers and partners of the companies we acquired or in which we invested or with our customers and partners as a result of the integration of acquired operations;
- the impairment of relationships with, or failure to retain, employees of acquired companies or our existing employees as a result of integration of new personnel;
- our lack of, or limitations on our, control over the operations of our joint venture companies;
- the difficulty of integrating operations, systems, and controls as a result of cultural, regulatory, systems, and operational differences;
- in the case of foreign acquisitions and investments, the impact of particular economic, tax, currency, political, legal and regulatory risks associated with specific countries; and
-

the impact of known potential liabilities or liabilities that may be unknown, including as a result of inadequate internal controls, associated with the companies we acquired or in which we invested.

Our failure to be successful in addressing these risks or other problems encountered in connection with our past or future acquisitions and strategic investments could cause us to fail to realize the anticipated benefits of such acquisitions or investments, incur unanticipated liabilities, and harm our business generally.

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Our equity method and cost method investments' financial performance may differ from current estimates.

We have equity investments in certain entities and the accounting treatment applied for these investments varies depending on a number of factors, including, but not limited to, our percentage ownership and the level of influence or control we have over the relevant entity. Any losses experienced by these entities could adversely impact our results of operations and the value of our investment. In addition, if these entities were to fail and cease operations, we may lose the entire value of our investment and the stream of any shared profits. Some of our ventures may require additional uncommitted funding. We also have significant investments in entities that we have accounted for using the cost method. If these entities experience significant losses or were to fail and cease operations, our investments could be subject to impairment and the loss of a part or all of our investment value.

We have a significant amount of debt and may incur significant amounts of additional debt, which could adversely affect our financial health and our ability to react to changes in our business.

As of December 31, 2016, we had approximately \$7.9 billion of consolidated debt, including capital leases. Our substantial level of indebtedness increases the possibility that we may be unable to generate cash sufficient to pay when due the principal of, interest on, or other amounts associated with our indebtedness. In addition, we have the ability to draw down our revolving credit facility in the ordinary course, which would have the effect of increasing our indebtedness. We are also permitted, subject to certain restrictions under our existing indebtedness, to obtain additional long-term debt and working capital lines of credit to meet future financing needs. This would have the effect of increasing our total leverage.

Our substantial leverage could have significant negative consequences on our financial condition and results of operations, including:

- impairing our ability to meet one or more of the financial ratio covenants contained in our debt agreements or to generate cash sufficient to pay interest or principal, which could result in an acceleration of some or all of our outstanding debt in the event that an uncured default occurs;
- increasing our vulnerability to general adverse economic and market conditions;
- limiting our ability to obtain additional debt or equity financing;
- requiring the dedication of a substantial portion of our cash flow from operations to service our debt, thereby reducing the amount of cash flow available for other purposes;
- requiring us to sell debt or equity securities or to sell some of our core assets, possibly on unfavorable terms, to meet payment obligations;
- limiting our flexibility in planning for, or reacting to, changes in our business and the markets in which we compete; and
- placing us at a possible competitive disadvantage with less leveraged competitors and competitors that may have better access to capital resources.

Our ability to incur debt and the use of our funds could be limited by the restrictive covenants in the loan agreement for our revolving credit facility.

The loan agreement for our revolving credit facility contains restrictive covenants, as well as requirements to comply with certain leverage and other financial maintenance tests. These covenants and requirements could limit our ability to take various actions, including incurring additional debt, guaranteeing indebtedness and engaging in various types of transactions, including mergers, acquisitions and sales of assets. These covenants could place us at a disadvantage compared to some of our competitors, who may have fewer restrictive covenants and may not be required to operate under these restrictions. Further, these covenants could have an adverse effect on our business by limiting our ability to take advantage of financing, mergers and acquisitions or other opportunities.

Theft of our content, including digital copyright theft and other unauthorized exhibitions of our content, may decrease revenue received from our programming and adversely affect our businesses and profitability.

The success of our business depends in part on our ability to maintain the intellectual property rights to our entertainment content. We are fundamentally a content company, and piracy of our brands, television networks, digital content and other intellectual property has the potential to significantly and adversely affect us. Piracy is particularly prevalent in many parts of the world that lack copyright and other protections similar to existing law in the U.S. It is

also made easier by technological advances allowing the conversion of content into digital formats, which facilitates the creation, transmission and sharing of high-quality unauthorized copies. Unauthorized distribution of copyrighted material over the Internet is a threat to copyright owners' ability to protect and exploit their property. The proliferation of unauthorized use of our content may have an adverse effect on our business and profitability because it reduces the revenue that we potentially could receive from the legitimate sale and distribution of our content. Litigation may be necessary to enforce our intellectual property rights, protect trade secrets or to determine the validity or scope of proprietary rights claimed by others.

The loss of key personnel or talent could disrupt our business and adversely affect our revenue.

Our business depends upon the continued efforts, abilities and expertise of our corporate and divisional executive teams and entertainment personalities. We employ or contract with entertainment personalities who may have loyal audiences. These individuals are important to audience endorsement of our programs and other content. There can be no assurance that these individuals will remain with us or retain their current audiences. If we fail to retain key individuals or if our entertainment personalities lose their current audience base, our operations could be adversely affected.

As a holding company, we could be unable to obtain cash in amounts sufficient to meet our financial obligations or other commitments.

Our ability to meet our financial obligations and other contractual commitments will depend upon our ability to access cash. We are a holding company, and our sources of cash include our available cash balances, net cash from the operating activities of our subsidiaries, any dividends and interest we may receive from our investments, availability under our credit facility or any credit facilities that we may obtain in the future and proceeds from any asset sales we may undertake in the future. The ability of our operating subsidiaries, including Discovery Communications, LLC, to pay dividends or to make other payments or advances to us will depend on their individual operating results and any statutory, regulatory or contractual restrictions, including restrictions under our credit facility, to which they may be or may become subject. We are required to accrue and pay U.S. taxes for repatriation of certain cash balances held by foreign corporations. However, we intend to permanently reinvest these funds outside of the U.S. and our current plans do not demonstrate a need to repatriate them to fund our U.S. operations.

We have directors in common with those of Liberty Media Corporation ("Liberty Media"), Liberty Global plc ("Liberty Global"), Liberty Interactive Corporation ("Liberty Interactive") and Liberty Broadband Corporation ("Liberty Broadband"), which may result in the diversion of business opportunities or other potential conflicts.

Liberty Media, Liberty Global, Liberty Interactive and Liberty Broadband (together, the "Liberty Entities") own interests in various U.S. and international companies, such as Charter Communications, Inc. ("Charter"), that have subsidiaries that own or operate domestic or foreign content services that may compete with the content services we offer. We have no rights in respect of U.S. or international content opportunities developed by or presented to the subsidiaries of any Liberty Entities, and the pursuit of these opportunities by such subsidiaries may adversely affect our interests and those of our stockholders. Because we and the Liberty Entities have overlapping directors, the pursuit of business opportunities may serve to intensify the conflicts of interest or appearance of conflicts of interest faced by the respective management teams. Our charter provides that none of our directors or officers will be liable to us or any of our subsidiaries for breach of any fiduciary duty by reason of the fact that such individual directs a corporate opportunity to another person or entity (including any Liberty Entities), for which such individual serves as a director or officer, or does not refer or communicate information regarding such corporate opportunity to us or any of our subsidiaries, unless (x) such opportunity was expressly offered to such individual solely in his or her capacity as a director or officer of us or any of our subsidiaries and (y) such opportunity relates to a line of business in which we or any of our subsidiaries is then directly engaged.

We have directors that are also related persons of Advance/Newhouse and that overlap with those of the Liberty Entities, which may lead to conflicting interests for those tasked with the fiduciary duties of our board.

Our eleven-person board of directors includes three designees of Advance/Newhouse, including Robert J. Miron, who was the Chairman of Advance/Newhouse until December 31, 2010, and Steven A. Miron, the Chief Executive Officer of Advance/Newhouse. In addition, our board of directors includes two persons who are currently members of the board of directors of Liberty Media, three persons who are currently members of the board of directors of Liberty Global, two persons who are currently members of the board of directors of Liberty Interactive, two persons who are currently members of the board of directors of Liberty Broadband and two persons who are currently members of the board of directors of Charter, of which Liberty Broadband owns an equity interest. John C. Malone is the Chairman of the boards of all of the Liberty Entities and is a member of the board of directors at Charter. The parent company of Advance/Newhouse and the Liberty entities own interests in a range of media, communications and entertainment businesses.

Advance/Newhouse will elect three directors annually for so long as it owns a specified minimum amount of our Series A convertible preferred stock. The Advance/Newhouse Series A convertible preferred stock, which votes with our common stock on all matters other than the election of directors, represents approximately 25% of the voting power of our outstanding shares. The Series A convertible preferred stock also grants Advance/Newhouse consent rights over a range of our corporate actions, including fundamental changes to our business, the issuance of additional capital stock, mergers and business combinations and certain acquisitions and dispositions.

None of the Liberty Entities own any interest in us. Mr. Malone beneficially owns stock of Liberty Media representing approximately 47% of the aggregate voting power of its outstanding stock, owns shares representing approximately 24% of the aggregate voting power of Liberty Global, shares representing approximately 37% of the aggregate voting power of Liberty Interactive, shares representing approximately 46% of the aggregate voting power of Liberty Broadband and shares representing

approximately 21% of the aggregate voting power (other than with respect to the election of the common stock directors) of our outstanding stock. Mr. Malone controls approximately 28% of our aggregate voting power relating to the election of our eight common stock directors, assuming that the preferred stock owned by Advance/Newhouse has not been converted into shares of our common stock. Our directors who are also directors of the Liberty Entities own stock and stock incentives of the Liberty Entities and own our stock and stock incentives.

These ownership interests and/or business positions could create, or appear to create, potential conflicts of interest when these individuals are faced with decisions that could have different implications for us, Advance/Newhouse and/or the Liberty Entities. For example, there may be the potential for a conflict of interest when we, on the one hand, or Advance/Newhouse and/or one or more of the Liberty Entities, on the other hand, look at acquisitions and other corporate opportunities that may be suitable for the other.

The members of our board of directors have fiduciary duties to us and our stockholders. Likewise, those persons who serve in similar capacities at Advance/Newhouse or a Liberty Entity have fiduciary duties to those companies. Therefore, such persons may have conflicts of interest or the appearance of conflicts of interest with respect to matters involving or affecting both respective companies, and there can be no assurance that the terms of any transactions will be as favorable to us or our subsidiaries as would be the case in the absence of a conflict of interest.

It may be difficult for a third party to acquire us, even if such acquisition would be beneficial to our stockholders.

Certain provisions of our charter and bylaws may discourage, delay or prevent a change in control that a stockholder may consider favorable. These provisions include the following:

authorizing a capital structure with multiple series of common stock: a Series B that entitles the holders to ten votes per share, a Series A that entitles the holders to one vote per share and a Series C that, except as otherwise required by applicable law, entitles the holders to no voting rights;

authorizing the Series A convertible preferred stock with special voting rights, which prohibits us from taking any of the following actions, among others, without the prior approval of the holders of a majority of the outstanding shares of such stock:

increasing the number of members of the Board of Directors above ten;

making any material amendment to our charter or by-laws;

engaging in a merger, consolidation or other business combination with any other entity; and

appointing or removing our Chairman of the Board or our Chief Executive Officer;

authorizing the issuance of "blank check" preferred stock, which could be issued by our Board of Directors to increase the number of outstanding shares and thwart a takeover attempt;

classifying our common stock directors with staggered three-year terms and having three directors elected by the holders of the Series A convertible preferred stock, which may lengthen the time required to gain control of our Board of Directors;

limiting who may call special meetings of stockholders;

prohibiting stockholder action by written consent (subject to certain exceptions), thereby requiring stockholder action to be taken at a meeting of the stockholders;

- establishing advance notice requirements for nominations of candidates for election to our Board of Directors or for proposing matters that can be acted upon by stockholders at stockholder meetings;

requiring stockholder approval by holders of at least 80% of our voting power or the approval by at least 75% of our Board of Directors with respect to certain extraordinary matters, such as a merger or consolidation, a sale of all or substantially all of our assets or an amendment to our charter;

requiring the consent of the holders of at least 75% of the outstanding Series B common stock (voting as a separate class) to certain share distributions and other corporate actions in which the voting power of the Series B common stock would be diluted by, for example, issuing shares having multiple votes per share as a dividend to holders of Series A common stock; and

the existence of authorized and unissued stock which would allow our Board of Directors to issue shares to persons friendly to current management, thereby protecting the continuity of our management, or which could be used to dilute the stock ownership of persons seeking to obtain control of us.





We have also adopted a shareholder rights plan in order to encourage anyone seeking to acquire us to negotiate with our Board of Directors prior to attempting a takeover. While the plan is designed to guard against coercive or unfair tactics to gain control of us, the plan may have the effect of making more difficult or delaying any attempts by others to obtain control of us.

Holders of any single series of our common stock may not have any remedies if any action by our directors or officers has an adverse effect on only that series of common stock.

Principles of Delaware law and the provisions of our charter may protect decisions of our Board of Directors that have a disparate impact upon holders of any single series of our common stock. Under Delaware law, the Board of Directors has a duty to act with due care and in the best interests of all of our stockholders, including the holders of all series of our common stock. Principles of Delaware law established in cases involving differing treatment of multiple classes or series of stock provide that a board of directors owes an equal duty to all common stockholders regardless of class or series and does not have separate or additional duties to any group of stockholders. As a result, in some circumstances, our directors may be required to make a decision that is adverse to the holders of one series of common stock. Under the principles of Delaware law referred to above, stockholders may not be able to challenge these decisions if our Board of Directors is disinterested and adequately informed with respect to these decisions and acts in good faith and in the honest belief that it is acting in the best interests of all of our stockholders.

If Advance/Newhouse were to exercise its registration rights, it may cause a significant decline in our stock price, even if our business is doing well.

Advance/Newhouse has been granted registration rights covering all of the shares of common stock issuable upon conversion of the convertible preferred stock held by Advance/Newhouse. Advance/Newhouse's Series A convertible preferred stock is currently convertible into one share of our Series A common stock and one share of our Series C common stock and Advance/Newhouse's Series C convertible preferred stock is convertible into shares of our Series C common stock on a 2-for-1 basis, subject to certain anti-dilution adjustments. The registration rights, which are immediately exercisable, are transferable with the sale or transfer by Advance/Newhouse of blocks of shares representing 10% or more of the preferred stock it holds. The exercise of the registration rights, and subsequent sale of possibly large amounts of our common stock in the public market, could materially and adversely affect the market price of our common stock.

John C. Malone and Advance/Newhouse each have significant voting power with respect to corporate matters considered by our stockholders.

For corporate matters other than the election of directors, Mr. Malone and Advance/Newhouse each beneficially own shares of our stock representing approximately 21% and 25%, respectively, of the aggregate voting power represented by our outstanding stock. With respect to the election of directors, Mr. Malone controls approximately 28% of the aggregate voting power relating to the election of the eight common stock directors (assuming that the convertible preferred stock owned by Advance/Newhouse (the "A/N Preferred Stock") has not been converted into shares of our common stock). The A/N Preferred Stock carries with it the right to designate three preferred stock directors to our board (subject to certain conditions), but does not carry voting rights with respect to the election of the eight common stock directors. Also, under the terms of the A/N Preferred Stock, Advance/Newhouse has special voting rights as to certain enumerated matters, including material amendments to the restated charter and bylaws, fundamental changes in our business, mergers and other business combinations, certain acquisitions and dispositions and future issuances of capital stock. Although there is no stockholder agreement, voting agreement or any similar arrangement between Mr. Malone and Advance/Newhouse, by virtue of their respective holdings, Mr. Malone and Advance/Newhouse each have significant influence over the outcome of any corporate transaction or other matter submitted to our stockholders.

ITEM 1B. Unresolved Staff Comments.

None.

ITEM 2. Properties.

We own and lease approximately 1.96 million square feet of building space for the conduct of our businesses at 72 locations throughout the world. In the U.S. alone, we own and lease approximately 597,000 and 578,000 square feet of building space, respectively, at 14 locations. Principal locations in the U.S. include: (i) our world headquarters

located at One Discovery Place, Silver Spring, Maryland, where approximately 543,000 square feet is used for certain executive and corporate offices and general office space by our U.S. Networks and Education and Other segments, (ii) general office space at 850 Third Avenue, New York, New York, where approximately 189,000 square feet is primarily used for sales by our U.S. Networks segment and certain executive offices, (iii) general office space and a production and post-production facility located at 8045 Kennett Street, Silver Spring, Maryland, where approximately 149,000 square feet is primarily used by our U.S. Networks segment, (iv) general office space located at 10100 Santa Monica Boulevard, Los Angeles, California, where approximately 64,000 square feet is primarily

used by our U.S. Networks segment, (v) general office space at 6505 Blue Lagoon Drive, Miami, Florida, where approximately 91,000 square feet is primarily used by our International Networks segment, and (vi) an origination facility at 45580 Terminal Drive, Sterling, Virginia, where approximately 54,000 square feet of space is used to manage the distribution of domestic network television content by our U.S. Networks segment.

We also lease over 784,000 square feet of building space at 58 locations outside of the U.S., including the U.K., France, Denmark, Italy, Singapore & Poland. Included in the non-US office figures are approximately 144,000 square feet of building space used for office, production and post-production for Eurosport.

Each property is considered to be in good condition, adequate for its purpose, and suitably utilized according to the individual nature and requirements of the relevant operations. Our policy is to improve and replace property as considered appropriate to meet the needs of the individual operation.

#### ITEM 3. Legal Proceedings.

The Company is party to various lawsuits and claims in the ordinary course of business. However, a determination as to the amount of the accrual required for such contingencies is highly subjective and requires judgments 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 our consolidated financial position, future results of operations or liquidity.

#### ITEM 4. Mine Safety Disclosures.

Not applicable.

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Executive Officers of Discovery Communications, Inc.

Pursuant to General Instruction G(3) to Form 10-K, the information regarding our executive officers required by Item 401(b) of Regulation S-K is hereby included in Part I of this report. The following table sets forth the name and date of birth of each of our executive officers and the office held by such officer as of February 14, 2017.

Name	Position
David M. Zaslav Born January 15, 1960	President, Chief Executive Officer and a common stock director. Mr. Zaslav has served as our President and Chief Executive Officer since January 2007. Mr. Zaslav served as President, Cable & Domestic Television and New Media Distribution of NBC Universal, Inc. ("NBC"), a media and entertainment company, from May 2006 to December 2006. Mr. Zaslav served as Executive Vice President of NBC, and President of NBC Cable, a division of NBC, from October 1999 to May 2006. Mr. Zaslav is a member of the board of Sirius XM Radio Inc., Grupo Televisa S.A.B and LionsGate Entertainment Corp.
Andrew Warren Born September 8, 1966	Chief Financial Officer. Mr. Warren has served as our Senior Executive Vice President, Chief Financial Officer since March 2012. Mr. Warren served as Chief Financial Officer of Liz Claiborne, Inc. (now Fifth & Pacific Companies Inc.) a designer, marketer and retail supplier of premium lifestyle fashion brands, from 2007 to 2012. Mr. Warren has announced that he will resign from his position effective March 31, 2017.
Jean-Briac Perrette Born April 30, 1971	President and CEO of Discovery Networks International. Mr. Perrette became CEO of Discovery Networks International in June 2016 and President of Discovery Networks International in March 2014. Prior to that, Mr. Perrette served as our Chief Digital Officer from October 2011 to February 2014. Mr. Perrette served in a number of roles at NBC Universal from March 2000 to October 2011, with the last being President of Digital and Affiliate Distribution.
Adria Alpert Romm Born March 2, 1955	Chief Human Resources and Global Diversity Officer. Ms. Romm has served as our Chief Human Resources and Global Diversity Officer since March 2014. Prior to that, Ms. Romm has served as our Senior Executive Vice President of Human Resources from March 2007 to February 2014. Ms. Romm served as Senior Vice President of Human Resources of NBC from 2004 to 2007. Prior to 2004, Ms. Romm served as a Vice President in Human Resources for the NBC TV network and NBC staff functions.
Bruce L. Campbell Born November 26, 1967	Chief Development, Distribution & Legal Officer. Mr. Campbell became our Chief Distribution Officer in October 2015, Chief Development Officer in August 2010 and our General Counsel in December 2010. Mr. Campbell served as Digital Media Officer from August 2014 through October 2015. Prior to that, Mr. Campbell served as our President, Digital Media & Corporate Development from March 2007 through August 2010. Mr. Campbell also served as our corporate secretary from December 2010 to February 2012. Mr. Campbell served as Executive Vice President, Business Development of NBC from December 2005 to March 2007, and Senior Vice President, Business Development of NBC from January 2003 to November 2005.
Paul Guagliardo "Guyardo" Born October 29, 1961	Chief Commercial Officer. Mr. Guagliardo has served as our Chief Commercial Officer since October 2015. Prior to that, Mr. Guagliardo served as the Executive Vice President, Chief Revenue and Marketing Officer for DIRECTV from October 2005 to August 2015. Mr. Guagliardo is a member of the board of Nutrisystem, Inc., a provider of weight management

products and services, and serves on the compensation and corporate governance committees.

David Leavy  
Born December  
24, 1969

Chief Corporate Operations and Communications Officer. Mr. Leavy became Chief Corporate Operations and Communications Officer in March 2016. Prior to that, Mr. Leavy served as our Chief Communications Officer and Senior Executive Vice President, Corporate Marketing and Business Operations from August 2015 to March 2016. From December 2011 to August 2015, Mr. Leavy served as our Chief Communications Officer and Senior Executive Vice President, Corporate Marketing and Affairs. Prior to that, Mr. Leavy served as our Executive Vice President, Communications and Corporate Affairs and has served in a number of other roles at Discovery since joining in March 2000.

Kurt T. Wehner  
Born June 30,  
1962

Executive Vice President and Chief Accounting Officer. Mr. Wehner joined the Company in September 2011 and has served as our Executive Vice President, Chief Accounting Officer since November 2012. Mr. Wehner was an Audit Partner at KPMG LLP from 2000 to 2011.

## PART II

## ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our Series A common stock, Series B common stock and Series C common stock are listed and traded on The NASDAQ Global Select Market ("NASDAQ") under the symbols "DISCA," "DISCB" and "DISCK," respectively. The following table sets forth, for the periods indicated, the range of high and low sales prices per share of our Series A common stock, Series B common stock and Series C common stock as reported on Yahoo! Finance (finance.yahoo.com).

	Series A Common Stock		Series B Common Stock		Series C Common Stock	
	High	Low	High	Low	High	Low
2016						
Fourth quarter	\$29.55	\$25.01	\$30.50	\$26.00	\$28.66	\$24.20
Third quarter	\$26.97	\$24.27	\$28.00	\$25.21	\$26.31	\$23.44
Second quarter	\$29.31	\$23.73	\$29.34	\$24.15	\$28.48	\$22.54
First quarter	\$29.42	\$24.33	\$29.34	\$24.30	\$28.00	\$23.81
2015						
Fourth quarter	\$31.14	\$25.36	\$31.16	\$25.40	\$29.58	\$23.83
Third quarter	\$34.80	\$25.82	\$34.26	\$26.04	\$32.68	\$24.21
Second quarter	\$34.45	\$30.78	\$34.04	\$31.39	\$32.17	\$28.53
First quarter	\$34.48	\$28.99	\$36.10	\$28.08	\$33.44	\$27.88

As of February 9, 2017, there were approximately 1,407, 82 and 1,524 record holders of our Series A common stock, Series B common stock and Series C common stock, respectively. These amounts do not include the number of shareholders whose shares are held of record by banks, brokerage houses or other institutions, but include each such institution as one shareholder.

We have not paid any cash dividends on our Series A common stock, Series B common stock or Series C common stock, and we have no present intention to do so. Payment of cash dividends, if any, will be determined by our Board of Directors after consideration of our earnings, financial condition and other relevant factors such as our credit facility's restrictions on our ability to declare dividends in certain situations.

## Purchases of Equity Securities

The following table presents information about our repurchases of common stock that were made through open market transactions during the three months ended December 31, 2016 (in millions, except per share amounts).

Period	Total Number of Series C Shares Purchased	Average Price Paid per Share: Series C <sup>(a)</sup>	Approximate	
			Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(b)(c)</sup>	Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs <sup>(a)(b)</sup>
October 1, 2016 - October 31, 2016	—	\$ —	—	\$ 1,288
November 1, 2016 - November 30, 2016	2.8	\$ 25.16	2.8	\$ 1,217
December 1, 2016 - December 31, 2016 <sup>(d)</sup>	2.8	\$ 25.24	2.8	\$ 1,145
Total	5.6		5.6	\$ 1,145

(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 December 31, 2016, the total amount authorized under the stock repurchase program was \$7.5 billion, and we had remaining authorization of \$1.1 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 2016. The Company first announced its stock repurchase program on August 3, 2010.

(c) 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 December 31, 2016, we converted, repurchased and retired 2 million shares of Series C convertible preferred stock under the preferred stock conversion and repurchase arrangement for an aggregate purchase price of \$108 million. Based on the number of shares of Series C common stock purchased during the three months ended December 31, 2016, we expect to convert, repurchase and retire approximately 1 million shares of our Series C convertible preferred stock for approximately \$60 million on or about February 16, 2017.

(d) On August 22, 2016, we made an up front cash payment of \$71 million for a common stock repurchase contract. The contract settled on December 2, 2016 through the receipt of 2.8 million shares of Series C common stock at the then current market price equal to \$75 million. The receipt of shares is reflected as a component of treasury stock and reclassified from additional paid-in capital at the prepaid cost of \$71 million to treasury stock as of the settlement date. Common stock repurchase contracts are not reflected as a component of treasury stock or included within earnings per share calculations until the date of contract settlement. (See Note 12 to the accompanying consolidated financial statements.)

#### Stock Performance Graph

The following graph sets forth the cumulative total shareholder return on our Series A common stock, Series B common stock and Series C common stock as compared with the cumulative total return of the companies listed in the Standard and Poor's 500 Stock Index ("S&P 500 Index") and a peer group of companies comprised of CBS Corporation Class B common stock, Scripps Network Interactive, Inc., Time Warner, Inc., Twenty-First Century Fox, Inc. Class A common stock (News Corporation Class A Common Stock prior to June 2013), Viacom, Inc. Class B common stock and The Walt Disney Company. The graph assumes \$100 originally invested on December 31, 2011 in each of our Series A common stock, Series B common stock and Series C common stock, the S&P 500 Index, and the stock of our peer group companies, including reinvestment of dividends, for the years ended December 31, 2012, 2013, 2014, 2015 and 2016.

	December 31, 2011	December 31, 2012	December 31, 2013	December 31, 2014	December 31, 2015	December 31, 2016
DISCA	\$ 100.00	\$ 154.94	\$ 220.70	\$ 168.17	\$ 130.24	\$ 133.81
DISCB	\$ 100.00	\$ 150.40	\$ 217.35	\$ 175.04	\$ 127.80	\$ 137.83
DISCK	\$ 100.00	\$ 155.17	\$ 222.44	\$ 178.89	\$ 133.79	\$ 142.07
S&P 500	\$ 100.00	\$ 113.41	\$ 146.98	\$ 163.72	\$ 162.53	\$ 178.02
Peer Group	\$ 100.00	\$ 134.98	\$ 220.77	\$ 253.19	\$ 243.93	\$ 271.11

Equity Compensation Plan Information

Information regarding securities authorized for issuance under equity compensation plans will be set forth in our definitive Proxy Statement for our 2017 Annual Meeting of Stockholders under the caption “Securities Authorized for Issuance Under Equity Compensation Plans,” which is incorporated herein by reference.

## ITEM 6. Selected Financial Data.

The table set forth below presents our selected financial information for each of the past five years (in millions, except per share amounts). The selected statement of operations information for each of the three years ended December 31, 2016 and the selected balance sheet information as of December 31, 2016 and 2015 have been derived from and should be read in conjunction with the information in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," the audited consolidated financial statements included in Item 8, "Financial Statements and Supplementary Data," and other financial information included elsewhere in this Annual Report on Form 10-K. The selected statement of operations information for each of the two years ended December 31, 2013 and 2012 and the selected balance sheet information as of December 31, 2014, 2013 and 2012 have been derived from financial statements not included in this Annual Report on Form 10-K.

	2016	2015	2014	2013	2012
Selected Statement of Operations Information:					
Revenues	\$6,497	\$6,394	\$6,265	\$5,535	\$4,487
Operating income	2,058	1,985	2,061	1,975	1,859
Income from continuing operations, net of taxes	1,218	1,048	1,137	1,077	956
Loss from discontinued operations, net of taxes	—	—	—	—	(11)
Net income	1,218	1,048	1,137	1,077	945
Net income available to Discovery Communications, Inc.	1,194	1,034	1,139	1,075	943
Basic earnings per share available to Discovery Communications, Inc. Series A, B and C common stockholders:					
Continuing operations	\$1.97	\$1.59	\$1.67	\$1.50	\$1.27
Discontinued operations	—	—	—	—	(0.01)
Net income	1.97	1.59	1.67	1.50	1.25
Diluted earnings per share available to Discovery Communications, Inc. Series A, B and C common stockholders:					
Continuing operations	\$1.96	\$1.58	\$1.66	\$1.49	\$1.26
Discontinued operations	—	—	—	—	(0.01)
Net income	1.96	1.58	1.66	1.49	1.24
Weighted average shares outstanding:					
Basic	401	432	454	484	498
Diluted	610	656	687	722	759
Selected Balance Sheet Information:					
Cash and cash equivalents	\$300	\$390	\$367	\$408	\$1,201
Total assets	15,758	15,864	15,970	14,934	12,892
Long-term debt:					
Current portion	82	119	1,107	17	31
Long-term portion	7,841	7,616	6,002	6,437	5,174
Total liabilities	10,348	10,172	9,619	8,701	6,599
Redeemable noncontrolling interests	243	241	747	36	—
Equity attributable to Discovery Communications, Inc.	5,167	5,451	5,602	6,196	6,291
Total equity	\$5,167	\$5,451	\$5,604	\$6,197	\$6,293

Income per share amounts may not sum since each is calculated independently.

On September 30, 2016, the Company recorded an other-than-temporary impairment of \$62 million related to its investment in Lionsgate. On December 2, 2016, the Company acquired a 39% minority interest in Group Nine Media, a newly formed media holding company, in exchange for contributions of \$100 million and the Company's digital

network businesses Seeker and SourceFed, resulting in a gain of \$50 million upon deconsolidation of the businesses. (See Note 4 to the accompanying consolidated financial statements.)

On May 30, 2014, the Company acquired a controlling interest in Eurosport International by increasing Discovery's ownership stake from 20% to 51%. As a result, as of that date, the accounting for Eurosport was changed from an equity method investment to a consolidated subsidiary. On March 31, 2015 the Company acquired a controlling interest in Eurosport France increasing Discovery's ownership stake by 31% upon the resolution of certain regulatory matters and began accounting for Eurosport France as a consolidated subsidiary. On October 1, 2015, the Company acquired the remaining 49% of Eurosport for €491 million (\$548 million) upon TF1's exercise of its right to put. (See Note 11 to the accompanying consolidated financial statements.)

On April 9, 2013, we acquired the television and radio operations of SBS Nordic. The acquisition has been included in our operating results since the acquisition date. The radio operations of SBS Nordic were subsequently sold on June 30, 2015. (See Note 3 to the accompanying consolidated financial statements.)

Balance sheet amounts for prior years have been adjusted to reclassify debt issuance costs from other noncurrent assets to noncurrent portion of debt in accordance with ASU 2015-03. Amounts reclassified were \$44 million, \$45 million and \$38 million for 2014, 2013 and 2012, respectively.

On September 23, 2014, we acquired an additional 10% ownership interest in Discovery Family. The purchase increased our ownership interest from 50% to 60%. As a result, the accounting for Discovery Family was changed from an equity method investment to a consolidated subsidiary. (See Note 3 to the accompanying consolidated financial statements.)

On September 17, 2012, we sold our postproduction audio business, the results of operations of which have been reclassified to discontinued operations for all periods presented.

#### ITEM 7. 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 our businesses, current developments, results of operations, cash flows, financial condition, contractual commitments and critical accounting policies.

#### CAUTIONARY NOTE CONCERNING FORWARD-LOOKING STATEMENTS

Certain statements in this Annual Report on Form 10-K 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, 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 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; 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; 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 FCC 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." These forward-looking statements and such risks, uncertainties, and other factors speak only as of the date of this Annual Report on Form 10-K, 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, ID, Velocity (known as Turbo outside of the U.S.) and Eurosport, a leading sports entertainment pay-TV programmer across Europe and Asia. 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, DTH satellite operators, telecommunication service providers, and other content distributors, that 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. For further discussion of our Company, segments in which we do business, and our content development activities and revenues, see our business overview set forth in Item 1, "Business" in this Annual Report on Form 10-K.

## RESULTS OF OPERATIONS – 2016 vs. 2015

## Consolidated Results of Operations – 2016 vs. 2015

Our consolidated results of operations for 2016 and 2015 were as follows (in millions).

	Year Ended December 31,		
	2016	2015	% Change
Revenues:			
Distribution	\$ 3,213	\$ 3,068	5 %
Advertising	2,970	3,004	(1 )%
Other	314	322	(2 )%
Total revenues	6,497	6,394	2 %
Costs of revenues, excluding depreciation and amortization	2,432	2,343	4 %
Selling, general and administrative	1,690	1,669	1 %
Depreciation and amortization	322	330	(2 )%
Restructuring and other charges	58	50	16 %
(Gain) loss on disposition	(63 )	17	NM
Total costs and expenses	4,439	4,409	1 %
Operating income	2,058	1,985	4 %
Interest expense	(353 )	(330 )	7 %
(Loss) income from equity method investees, net	(38 )	1	NM
Other income (expense), net	4	(97 )	NM
Income before income taxes	1,671	1,559	7 %
Income tax expense	(453 )	(511 )	(11 )%
Net income	1,218	1,048	16 %
Net income attributable to noncontrolling interests	(1 )	(1 )	— %
Net income attributable to redeemable noncontrolling interests	(23 )	(13 )	77 %
Net income available to Discovery Communications, Inc.	\$ 1,194	\$ 1,034	15 %

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. Distribution revenue increased 5%. Excluding the impact of foreign currency fluctuations and the acquisition of Eurosport France in March 2015, distribution revenue increased 7% at our U.S. Networks segment and 9% at our International Networks segment. U.S. Networks distribution revenue increased primarily due to contractual rate increases partially offset by slight declines in subscribers. International Networks' distribution revenue increases were mostly due to increases in rates in Europe and increases in subscribers and rates in Latin America.

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. Advertising revenue decreased 1%. Excluding the impact of foreign currency fluctuations and the disposition of the Company's radio business, advertising revenue increased 2% as a result of increases of 2% at our U.S. Networks and 3% at our International Networks. The increase for our U.S. Networks was due to inventory management and pricing increases, partially offset by a decline in ratings. The increase for our International Networks was primarily driven by ratings and volume in Southern Europe, and to a lesser extent, pricing, ratings and volume in Central and Eastern Europe, the Middle East, and Africa ("CEEMEA"), partially offset by lower ratings in Northern Europe.



Other revenue decreased 2%. Excluding the impact of foreign currency fluctuations and the disposition of the Company's radio business, other revenue, which includes revenues from services provided to equity investees, increased 3%. This was due to increases at our U.S. Networks offset by decreases at our International Networks.

#### Costs of Revenues

Costs of revenues increased 4%. Excluding the impact of foreign currency fluctuations, the acquisition of Eurosport France in March 2015 and the disposition of the Company's radio business, costs of revenues increased 7% for the year ended December 31, 2016. The increase was primarily attributable to increased spending for content on our networks, particularly sports rights and associated production costs, and increases in content impairments in Northern Europe as a result of changes in programming strategies. Content amortization was \$1.7 billion and \$1.6 billion for the years ended December 31, 2016 and December 31, 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. Selling, general and administrative expenses increased 1%. Excluding the impact of foreign currency fluctuations and the disposition of the Company's radio business, selling, general and administrative expenses increased 5% for the year ended December 31, 2016. The increase was due to increases in mark-to-market equity-based compensation expense from increases in the Company's stock price 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 declined slightly for the year ended December 31, 2016 as there have been slight declines in capital spending and no new significant business combinations.

#### Restructuring and Other Charges

Restructuring and other charges increased \$8 million for the year ended December 31, 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 15 to the accompanying consolidated financial statements.) This increase was partially offset by decreases in content impairments that were classified as other charges.

#### Gain on Disposition

Gain on disposition increased \$80 million for the year ended December 31, 2016 as a result of a gain recorded upon the deconsolidation of our digital networks businesses Seeker and SourceFed Studios on December 2, 2016 in connection with the Group Nine Media transaction, and the recognition of a gain following the resolution of the final contingent payment for the sale of the radio business, compared with an expected loss in the prior year. (See Note 3 to the accompanying consolidated financial statements.)

#### Interest Expense

Interest expense increased for the year ended December 31, 2016 primarily due to the March 11, 2016 issuance of the 4.90% senior notes due March 2026. (See Note 9 to the accompanying consolidated financial statements.)

#### (Loss) income from Equity Investees, net

Losses from our equity method investees increased \$39 million due to investments in limited liability companies that sponsor renewable energy projects related to solar energy and increased losses at All3Media for derivatives that do not receive hedge accounting. (See Note 4 to the accompanying consolidated financial statements.)

## Other Expense, Net

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

	Year Ended December 31,	
	2016	2015
Foreign currency gains (losses), net	\$ 75	\$ (103 )
(Losses) gains on derivative instruments	(12 )	5
Remeasurement gain on previously held equity interest	—	2
Other-than-temporary impairment of AFS investments	(62 )	—
Other income (expense), net	3	(1 )
Total other income (expense), net	\$ 4	\$ (97 )

Other income (expense), net increased \$101 million in 2016. The change is primarily the result of gains in foreign currency offset by a \$62 million other-than-temporary impairment in the value of our Lionsgate shares (see Note 4 to the accompanying consolidated financial statements). The change in foreign currency (gains) losses, net is caused by the remeasurement of foreign currency monetary assets and liabilities. For the year ended December 31, 2016, exchange rate changes in the British pound resulted in net remeasurement gains. The gains in the current year are in contrast to losses in the prior period for the remeasurement of our 1.90% euro-dominated senior notes due March 19, 2027, which have been effectively hedged for the year ended December 31, 2016, and remeasurement losses on monetary assets in Venezuela following a steep decline in value during the prior year.

## Income Taxes

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

	Year Ended December 31,	
	2016	2015
U.S. federal statutory income tax rate	35 %	35 %
State and local income taxes, net of federal tax benefit	(2 )%	2 %
Effect of foreign operations	(1 )%	1 %
Domestic production activity deductions	(4 )%	(3 )%
Change in uncertain tax positions	— %	(1 )%
Renewable energy investments tax credits	(1 )%	— %
Other, net	— %	(1 )%
Effective income tax rate	27 %	33 %

Income tax expense was \$453 million and \$511 million and the effective tax rate was 27% and 33% for 2016 and 2015, respectively. The net 6% decrease in the effective tax rate was attributable to the resolution of multi-year state tax positions that resulted in a reduction of reserves related to uncertain tax positions, allocation and taxation of income among multiple foreign and domestic jurisdictions, the impact of various foreign legislative changes, and tax credits that we receive related to our renewable energy investments. The decrease was partially offset by 2015 favorable audit resolutions which positively impacted the assessment of uncertain tax positions for 2015 but did not recur in 2016. (See Note 16 to the accompanying consolidated financial statements.)

## Segment Results of Operations – 2016 vs. 2015

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. Total 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 U.S. generally accepted accounting principles (“GAAP”). Additional financial information for our segments and geographical areas in which we do business is discussed in Note 21 to the accompanying consolidated financial statements included in Item 8, “Financial Statements and Supplementary Data” in this Annual Report on Form 10-K.

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

	Year Ended December 31,		
	2016	2015	% Change
Revenue:			
U.S. Networks	\$ 3,285	\$ 3,131	5 %
International Networks	3,040	3,092	(2 )%
Education and Other	174	173	1 %
Corporate and inter-segment eliminations	(2 )	(2 )	— %
Total revenue	6,497	6,394	2 %
Costs of revenues, excluding depreciation and amortization	(2,432 )	(2,343 )	4 %
Selling, general and administrative <sup>(a)</sup>	(1,652 )	(1,669 )	(1 )%
Add: Amortization of deferred launch incentives <sup>(b)</sup>	13	16	(19 )%
Adjusted OIBDA	\$ 2,426	\$ 2,398	1 %

<sup>(a)</sup> Selling, general and administrative expenses exclude mark-to-market equity-based compensation, restructuring and other charges, and gains (losses) on dispositions.

<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.

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

	Year Ended December 31,		
	2016	2015	% Change
Net income available to Discovery Communications, Inc.	\$ 1,194	\$ 1,034	15 %
Net income attributable to redeemable noncontrolling interests	23	13	77 %
Net income attributable to noncontrolling interests	1	1	— %
Income tax expense	453	511	(11) %
Other expense, net	(4 )	97	NM
Loss (income) from equity investees, net	38	(1 )	NM
Interest expense	353	330	7 %
Operating income	2,058	1,985	4 %
(Gain) loss on disposition	(63 )	17	NM
Restructuring and other charges	58	50	16 %
Depreciation and amortization	322	330	(2) %
Mark-to-market equity-based compensation	38	—	NM
Amortization of deferred launch incentives	13	16	(19) %
Total Adjusted OIBDA	\$ 2,426	\$ 2,398	1 %
Adjusted OIBDA:			
U.S. Networks	1,922	1,774	8 %
International Networks	848	961	(12) %
Education and Other	(10 )	(2 )	NM
Corporate and inter-segment eliminations	(334 )	(335 )	— %
Total Adjusted OIBDA	\$ 2,426	\$ 2,398	1 %

#### U.S. Networks

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

	Year Ended December 31,		
	2016	2015	% Change
Revenues:			
Distribution	\$ 1,532	\$ 1,431	7 %
Advertising	1,690	1,650	2 %
Other	63	50	26 %
Total revenues	3,285	3,131	5 %
Costs of revenues, excluding depreciation and amortization	(891 )	(892 )	— %
Selling, general and administrative	(472 )	(465 )	2 %
Adjusted OIBDA	1,922	1,774	8 %
Depreciation and amortization	(28 )	(29 )	(3) %
Restructuring and other charges	(15 )	(33 )	(55) %
Gain on dispositions	50	—	NM
Inter-segment eliminations	(14 )	(8 )	75 %
Operating income	\$ 1,915	\$ 1,704	12 %

#### Revenues

Distribution revenue increased 7%, primarily due to contractual rate increases that include market adjustments for certain recent contract renewals partially offset by slight declines in subscribers.



Advertising revenue increased 2%, due to inventory management and pricing increases, partially offset by a decline in ratings.

Other revenue increased 26%, primarily due to increases in services provided to equity method investees.

#### Costs of Revenues

Costs of revenues remained consistent with the prior period. Content amortization was \$716 million and \$714 million for 2016 and 2015, respectively.

#### Selling, General and Administrative

Selling, general and administrative expenses increased 2% as increased spending on marketing was offset by decreases in personnel costs.

#### Adjusted OIBDA

Adjusted OIBDA increased 8%, primarily due to increases in distribution and advertising revenue.

#### International Networks

The following table presents, for our International Networks segment, revenues by type, certain operating expenses, certain contra revenue amounts, Adjusted OIBDA and a reconciliation of Adjusted OIBDA to operating income (in millions). In addition, see the International Networks' table in "Results of Operations – 2016 vs. 2015 – Items Impacting Comparability" for more information on Eurosport.

	Year Ended December 31,		
	2016	2015	% Change
Revenues:			
Distribution	\$ 1,681	\$ 1,637	3 %
Advertising	1,279	1,353	(5 )%
Other	80	102	(22 )%
Total revenues	3,040	3,092	(2 )%
Costs of revenues, excluding depreciation and amortization	(1,462 )	(1,375 )	6 %
Selling, general and administrative	(743 )	(772 )	(4 )%
Add: Amortization of deferred launch incentives	13	16	(19 )%
Adjusted OIBDA	848	961	(12 )%
Amortization of deferred launch incentives	(13 )	(16 )	(19 )%
Depreciation and amortization	(221 )	(235 )	(6 )%
Restructuring and other charges	(26 )	(14 )	86 %
Gain (loss) on disposition	13	-(17 )	NM
Inter-segment eliminations	(4 )	(3 )	33 %
Operating income	\$ 597	\$ 676	(12 )%

#### Revenues

Distribution revenue increased 3%. Excluding the impact of foreign currency fluctuations and the acquisition of Eurosport France in March 2015, distribution revenue increased 9%. The increase was mostly due to increases in rates in Europe and increases in subscribers and rates in Latin America. Such growth is consistent with the value negotiated in new arrangements following investment in sports content in markets in Europe and the continued development of the pay-TV markets in Latin America.

Advertising revenue decreased 5%. Excluding the impact of foreign currency fluctuations and the disposition of the Company's radio business, advertising revenue increased 3%. The increase 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 and lower price, ratings and volume in Asia.

Other revenue decreased 22%. Excluding the impact of foreign currency fluctuations and the disposition of the Company's radio business, other revenue decreased 17% due to a reduction in sublicensing revenue for Eurosport.





### Costs of Revenues

Costs of revenues increased 6%. Excluding the impact of foreign currency fluctuations, the acquisition of Eurosport France in March 2015, and the disposition of the Company's radio business, costs of revenues increased 11%. The increase was mostly attributable to increased spending on content, particularly sports rights and associated production costs, and increases in content impairments, primarily in Northern Europe as a result of changes in programming strategies. Content amortization was \$976 million and \$906 million for 2016 and 2015, respectively.

### Selling, General and Administrative

Selling, general and administrative expenses decreased 4%. Excluding the impact of foreign currency fluctuations and the disposition of the Company's radio business, selling, general and administrative expenses increased 4%. The components of selling, general and administrative expenses included increases in personnel expenses and marketing costs.

### Adjusted OIBDA

Adjusted OIBDA decreased 12%. Excluding the impact of foreign currency fluctuations and the disposition of the Company's radio business, Adjusted OIBDA decreased 3%. The decrease was primarily due to higher content expense partially offset by increases in distribution revenue.

### Education and Other

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

	Year Ended December 31,		
	2016	2015	% Change
Revenues	\$ 174	\$ 173	1 %
Costs of revenues, excluding depreciation and amortization	(79 )	(75 )	5 %
Selling, general and administrative	(105 )	(100 )	5 %
Adjusted OIBDA	(10 )	(2 )	NM
Depreciation and amortization	(7 )	(7 )	— %
Restructuring and other charges	(3 )	(2 )	50 %
Inter-segment eliminations	18	11	64 %
Operating income	\$ (2 )	\$ —	NM

Adjusted OIBDA decreased \$8 million. The decrease was primarily due to additional operational spending to invest 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 revenue, certain operating expenses, Adjusted OIBDA and a reconciliation of Adjusted OIBDA to operating loss (in millions).

	Year Ended December 31,		
	2016	2015	% Change
Revenues	\$ (2 )	\$ (2 )	— %
Costs of revenues, excluding depreciation and amortization	—	(1 )	NM
Selling, general and administrative	(332 )	(332 )	— %
Adjusted OIBDA	(334 )	(335 )	— %
Mark-to-market equity-based compensation	(38 )	—	NM
Depreciation and amortization	(66 )	(59 )	12 %
Restructuring and other charges	(14 )	(1 )	NM
Operating loss	\$ (452 )	\$ (395 )	14 %

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

Adjusted OIBDA remained consistent with the prior period.



The increase in mark-to-market equity-based compensation expense was primarily attributable to an increase in Discovery's stock price in 2016 compared to 2015. Changes in stock price are a key driver of fair value estimates used in the attribution of expense for stock appreciation rights ("SARs") and performance-based restricted stock units ("PRsUs"). By contrast, stock options and service-based restricted stock units ("RSUs") are fair valued at grant date and amortized over their vesting period without mark-to-market adjustments. The expense associated with stock options and RSU's is included in Adjusted OIBDA as a component of selling, general and administrative expense.

#### Items Impacting Comparability

From time to time certain items may impact the comparability of our consolidated results of operations between two periods. In comparing the financial results for the years 2016 and 2015, the Company has identified foreign currency as one such item, as noted below.

#### Foreign Currency

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. The impact of foreign currency on the comparability of our results is reflected in the tables below (in millions). Results on a constant currency basis, as we present them, may not be comparable to similarly titled measures used by other companies.

Consolidated	Year Ended December 31,					
	2016	2015	% Change (Reported)		% Change (ex-FX)	
Revenues:						
Distribution	\$3,213	\$3,068	5	%	9	%
Advertising	2,970	3,004	(1)	)%	1	%
Other	314	322	(2)	)%	2	%
Total revenues	6,497	6,394	2	%	4	%
Costs of revenue, excluding depreciation and amortization	2,432	2,343	4	%	6	%
Selling, general and administrative expense	1,690	1,669	1	%	4	%
Add: Amortization of deferred launch incentives	13	16	(19)	)%	(13)	)%
Add: Mark-to-market equity-based compensation	38	—	NM		NM	
Adjusted OIBDA	\$2,426	\$2,398	1	%	5	%

International Networks	Year Ended December 31,				
	2016	2015	% Change (Reported)	% Change (ex-FX)	
Revenues:					
Distribution	\$1,681	\$1,637	3 %	10 %	
Advertising	1,279	1,353	(5 )%	(2 )%	
Other	80	102	(22 )%	(20 )%	
Total revenues	3,040	3,092	(2 )%	4 %	
Costs of revenue, excluding depreciation and amortization	1,462	1,375	6 %	10 %	
Selling, general and administrative expenses	743	772	(4 )%	1 %	
Add: Amortization of deferred launch incentives	13	16	(19 )%	(13 )%	
Adjusted OIBDA	\$848	\$961	(12 )%	(4 )%	

## RESULTS OF OPERATIONS – 2015 vs. 2014

The discussion of our results that follows reflects our management reporting structure for International Networks prior to January 1, 2015. Effective January 1, 2015, we realigned our International Networks management reporting structure into the following regions: Northern Europe, which includes primarily the Nordic countries, which we refer to as the Nordics, and U.K.; Southern Europe, which primarily includes Italy and Spain; CEEMEA, which has been expanded to include Germany; Latin America; Asia-Pacific; and Eurosport. Previously, International Networks' regional operations reporting structure was segregated into the following regions: Western Europe, which included the U.K. and western European countries; Nordics; CEEMEA; Latin America; Asia-Pacific; and Eurosport. This realignment did not impact our consolidated financial statements other than to change the regions in which we describe our operating results for the International Networks segment from January 1, 2015.

	Year Ended December 31,		
	2015	2014	% Change
Revenues:			
Distribution	\$ 3,068	\$ 2,842	8 %
Advertising	3,004	3,089	(3 )%
Other	322	334	(4 )%
Total revenues	6,394	6,265	2 %
Costs of revenues, excluding depreciation and amortization	2,343	2,124	10 %
Selling, general and administrative	1,669	1,692	(1 )%
Depreciation and amortization	330	329	— %
Restructuring and other charges	50	90	(44 )%
Gain (loss) on disposition	17	(31	) NM
Total costs and expenses	4,409	4,204	5 %
Operating income	1,985	2,061	(4 )%
Interest expense	(330	) (328	) 1 %
Income from equity method investees, net	1	23	NM
Other expense, net	(97	) (9	) NM
Income before income taxes	1,559	1,747	(11 )%
Income taxes	(511	) (610	) (16 )%
Net income	1,048	1,137	(8 )%
Net income attributable to noncontrolling interests	(1	) (2	) (50 )%
Net (income) loss attributable to redeemable noncontrolling interests	(13	) 4	NM
Net income available to Discovery Communications, Inc.	\$ 1,034	\$ 1,139	(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, the acquisition of Eurosport and the effect of the consolidation of Discovery Family, distribution revenue increased 7% as a result of increases of 7% at our U.S. Networks segment and 7% at our International Networks segment. For U.S. Networks, excluding the effect of the consolidation of Discovery Family, distribution revenue increased primarily due to annual contractual rate increases and, to a lesser extent, increases in digital distribution revenue, partially offset by slight declines in subscribers. The increase in our International Networks' distribution revenue, excluding the impact of foreign currency and the acquisition of Eurosport, was mostly due to increases in affiliate rates and subscribers, in equivalent amounts, in Latin America, and, a lesser extent, to increases in subscribers in CEEMEA and digital distribution revenue.



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, the acquisition of Eurosport, the effect of the consolidation of Discovery Family, and the disposition of the Company's radio business, advertising revenue increased 6%, primarily due to increases of 11% at our International Networks segment and, to a lesser extent, increases of 2% at our U.S. Networks segment. The increase at our International Networks segment was mostly driven by pricing and, to a lesser extent, ratings in Southern Europe and pricing, volume, and to a lesser extent, ratings in Latin America. Southern Europe and Latin America contributed to the increase in equivalent amounts. The increases were also, to a lesser extent, due to pricing in Northern Europe. These increases were partially offset by decreases due to changes in regulations involving advertising sales operations in Russia, as further described in Item 1, "Business" in this Annual Report on Form 10-K. U.S. Networks' advertising revenue increased due to increases in pricing, partially offset by lower audience delivery.

Excluding the impact of foreign currency fluctuations, the acquisition of Eurosport, the effect of the consolidation of Discovery Family, and the disposition of the Company's radio business, other revenue increased 4%. This increase was primarily due to an increase at our Education and Other segments due to increased productions and, to a lesser extent, an increase at our International Networks segment as result of increased program sales. These increases were offset by a decrease at our U.S. Networks segment primarily due to the absence of representation service fees for Discovery Family, which have been eliminated since the Company began to consolidate Discovery Family.

#### Costs of Revenues

Excluding the impact of foreign currency fluctuations, the acquisitions of Eurosport, the effect of the consolidation of Discovery Family, and the disposition of the Company's radio business, costs of revenues increased 11% as result of increases of 12% at our International Networks segment and 7% at our U.S. Networks segment. The increases in costs of revenues were mostly due to our commitment to increased spending for content on our networks, which increased content amortization, and, to a lesser extent, increases in content impairments that were not included in restructuring and other charges. Excluding the impact of foreign currency fluctuations, the acquisition of Eurosport and the effect of the consolidation of Discovery Family, content amortization was \$1.5 billion and \$1.3 billion for the years ended December 31, 2015 and December 31, 2014, respectively. Content amortization rates on our networks have been slightly accelerating.

#### 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, the acquisition of Eurosport, the consolidation of Discovery Family, and the disposition of the Company's radio business, selling, general and administrative expenses increased 3% for the year ended December 31, 2015. The increase was primarily due to an increase in selling, general and administrative expense at our International Networks segment of 10% mostly due to increased personnel and associated support costs and, to a lesser extent, increased marketing costs. The increase was also, to a lesser extent, due to slight increases at our U.S. Network segment due to an increase in research and, to a lesser extent, marketing costs. These increases were partially offset by a decrease in our equity-based compensation expense.

#### Depreciation and Amortization

Depreciation and amortization expense includes depreciation of fixed assets and amortization of finite-lived intangible assets. Excluding the impact of foreign currency fluctuations, business combinations and dispositions, depreciation and amortization remained consistent for the year ended December 31, 2015.

#### Restructuring and Other Charges

Restructuring and other charges decreased \$40 million. The decrease was primarily due to a decrease in content impairment resulting from the post-acquisition rebranding of The Hub Network to Discovery Family in 2014 (See Note 6 and Note 15 to the accompanying consolidated financial statements.)





**Loss (Gain) on Disposition**

Loss on dispositions comprised \$12 million for the sale of the SBS Radio business and \$5 million for the contribution of the Russian business to the New Russian Business for the year ended December 31, 2015. Gain on disposition comprised \$31 million for the sale of HowStuffWorks for the year ended December 31, 2014. (See Note 3 to the accompanying consolidated financial statements.)

**Interest Expense**

Interest expense remained consistent for the year ended December 31, 2015 as compared to the year ended December 31, 2014.

**Income from Equity Investees, Net**

Income from our equity method investees declined \$22 million, mostly due to losses at All3Media related to the amortization of intangible assets for the step up in the fair value of assets acquired from the investment following its acquisition on September 23, 2014, interest expense for the recapitalization of debt for the transaction and losses on derivative instruments. The decline was also, to a lesser extent, due to the change in accounting for Discovery Family from an equity method investment to a consolidated subsidiary, as well as decreased income at various other equity method investees.

**Other Expense, Net**

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

	Year Ended	
	December 31,	
	2015	2014
Foreign currency losses, net	\$(103)	\$(22)
Gain on derivative instruments	5	1
Remeasurement gain on previously held equity interest	2	29
Other, net	(1 )	(17 )
Total other expense, net	\$(97 )	\$(9 )

Other expense, net increased \$88 million in 2015. The increase was primarily due to foreign currency losses related to revaluation of our 1.90% euro-dominated senior notes due March 19, 2027, which expose Discovery to fluctuations in euro exchange rates, as well as the revaluation of monetary assets in Venezuela, due to changes in the bolivar exchange rate used to remeasure revenue and monetary asset balances (as further discussed in Item 7A, "Quantitative and Qualitative Disclosures about Market Risk" in this Annual Report on Form 10-K). The increase was further attributable to a decrease in remeasurement gain related to the acquisition of a controlling interest in Eurosport on May 30, 2014 of \$29 million, and Eurosport France on March 31, 2015 of \$2 million (See Note 3 to the accompanying consolidated financial statements). These increases were slightly offset by the attribution expense related to the put right held by TF1, the holder of the remaining interests in Eurosport and Eurosport France, as a component of other expense, net in 2014, for which there is no similar expense in the 2015.

**Income Taxes**

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

	Year Ended	
	December	
	31,	
	2015	2014
U.S. federal statutory income tax rate	35 %	35 %
State and local income taxes, net of federal tax benefit	2 %	2 %
Effect of foreign operations	1 %	2 %
Domestic production activity deductions	(3 )%	(3 )%
Change in uncertain tax positions	(1 )%	(1 )%
Other, net	(1 )%	— %

Effective income tax rate 33 % 35 %

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Income tax expense was \$511 million and \$610 million and the effective tax rate was 33% and 35% for 2015 and 2014, respectively. The net 2% decrease in the effective tax rate was attributable to a decrease in unrecognized tax benefits as a result of multiple audit resolutions and the lapse of the statute of limitations in foreign and domestic jurisdictions, favorable impact to deferred taxes due to various enacted foreign legislative changes and the allocation and taxation of income among multiple foreign and domestic jurisdictions.

#### Segment Results of Operations – 2015 vs. 2014

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

	Year Ended December 31,		
	2015	2014	% Change
Revenues:			
U.S. Networks	\$ 3,131	\$ 2,950	6 %
International Networks	3,092	3,157	(2 )%
Education and Other	173	160	8 %
Corporate and inter-segment eliminations	(2 )	(2 )	— %
Total revenues	6,394	6,265	2 %
Costs of revenues, excluding depreciation and amortization	(2,343 )	(2,124 )	10 %
Selling, general and administrative <sup>(a)</sup>	(1,669 )	(1,661 )	— %
Add: Amortization of deferred launch incentives <sup>(b)</sup>	16	11	45 %
Adjusted OIBDA	\$ 2,398	\$ 2,491	(4 )%

<sup>(a)</sup> Selling, general and administrative expenses exclude mark-to-market equity-based compensation, restructuring and other charges and gains (losses) on dispositions.

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

The table below presents our Adjusted OIBDA, with a reconciliation of consolidated net income available to Discovery Communications, Inc. to total Adjusted OIBDA (in millions).

	Year Ended December 31,		
	2015	2014	% Change
Net income available to Discovery Communications, Inc.	\$ 1,034	\$ 1,139	(9 )%
Net income attributable to redeemable noncontrolling interests	13	(4 )	NM
Net income attributable to noncontrolling interests	1	2	(50 )%
Income tax expense	511	610	(16 )%
Other expense, net	97	9	NM
Income from equity investees, net	(1 )	(23 )	NM
Interest expense	330	328	1 %
Operating income	1,985	2,061	(4 )%
Gain (loss) on disposition	17	(31 )	NM
Restructuring and other charges	50	90	(44 )%
Depreciation and amortization	330	329	— %
Mark-to-market equity-based compensation	—	31	(100 )%
Amortization of deferred launch incentives	16	11	45 %
Total Adjusted OIBDA	\$ 2,398	\$ 2,491	(4 )%
Adjusted OIBDA:			
U.S. Networks	\$ 1,774	\$ 1,680	6 %
International Networks	961	1,124	(15 )%
Education and Other	(2 )	6	NM
Corporate and inter-segment eliminations	(335 )	(319 )	5 %
Total Adjusted OIBDA	\$ 2,398	\$ 2,491	(4 )%

U.S. Networks

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

	Year Ended December 31,		
	2015	2014	% Change
Revenues:			
Distribution	\$ 1,431	\$ 1,289	11 %
Advertising	1,650	1,605	3 %
Other	50	56	(11 )%
Total revenues	3,131	2,950	6 %
Costs of revenues, excluding depreciation and amortization	(892 )	(815 )	9 %
Selling, general and administrative	(465 )	(455 )	2 %
Adjusted OIBDA	1,774	1,680	6 %
Depreciation and amortization	(29 )	(17 )	71 %
Restructuring and other charges	(33 )	(61 )	(46 )%
Gain on disposition	—	31	(100 )%
Inter-segment eliminations	(8 )	(7 )	14 %
Operating income	\$ 1,704	\$ 1,626	5 %

Revenues

Distribution revenue increased 11%. Excluding the effect of the consolidation of Discovery Family, distribution revenue increased 7% primarily due to contractual rate increases and, to a lesser extent, increases in digital distribution revenue, partially offset by slight declines in subscribers.

Advertising revenue increased 3%. Excluding the effect of the consolidation of Discovery Family, advertising revenue increased 2% as increases in pricing were partially offset by lower audience delivery.

Other revenue decreased 11%.