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 incorporation or organization)	(I.R.S. Employer Identification No.)
One Discovery Place Silver Spring, Maryland	20910
(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 ý 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 ý
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 ý 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 ý 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 ý	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 ý
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.
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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 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[a]	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

[a] 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 Frii 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^{st} 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, 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.

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.

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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.

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 [(a)]	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[(b)(c)]	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs[(a)(b)]
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[(d)]	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[(a)]	(1,652)	(1,669)	(1)%
Add: Amortization of deferred launch incentives[(b)]	13	16	(19)%
Adjusted OIBDA	$ 2,426	$ 2,398	1 %

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

(b) 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 %

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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.

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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 %

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[(a)]	(1,669)	(1,661)	— %
Add: Amortization of deferred launch incentives[(b)]	16	11	45 %
Adjusted OIBDA	$ 2,398	$ 2,491	(4)%

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

[(b)] 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%. Excluding the effect of the consolidation of Discovery Family, other revenue decreased 24% primarily due to the absence of representation service fees for Discovery Family, which have been eliminated since the Company began to consolidate Discovery Family. When Discovery Family was an equity method investment, these fees were not eliminated but disclosed as related party transactions in Note 19 to the accompanying consolidated financial statements.

Costs of Revenues

Costs of revenues increased 9%. Excluding the effect of the consolidation of Discovery Family, costs of revenues increased 7%. The increase was primarily attributable 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 effect of the consolidation of Discovery Family, content amortization was $719 million and $672 million for 2015 and 2014, respectively. Content amortization rates on our networks have been slightly accelerating.

Selling, General and Administrative

Selling, general and administrative expenses increased 2%. Excluding the effect of the consolidation of Discovery Family, selling, general and administrative expenses increased slightly due to increases in research and, to a lesser extent, marketing costs.

Adjusted OIBDA

Adjusted OIBDA increased 6%. Excluding the effect of the consolidation of Discovery Family, Adjusted OIBDA increased 3% primarily driven by increases in distribution and advertising revenue, partially offset by increases in content amortization.

International Networks

The following table presents, for our International 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	$ 1,637	$ 1,553	5 %
Advertising	1,353	1,483	(9)%
Other	102	121	(16)%
Total revenues	3,092	3,157	(2)%
Costs of revenues, excluding depreciation and amortization	(1,375)	(1,250)	10 %
Selling, general and administrative	(772)	(794)	(3)%
Add: Amortization of deferred launch incentives	16	11	45 %
Adjusted OIBDA	961	1,124	(15)%
Amortization of deferred launch incentives	(16)	(11)	45 %
Depreciation and amortization	(235)	(247)	(5)%
Restructuring and other charges	(14)	(24)	(42)%
Loss on disposition	(17)	—	NM
Inter-segment eliminations	(3)	(2)	50 %
Operating income	$ 676	$ 840	(20)%

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Revenues

Excluding the impact of foreign currency fluctuations and the acquisition of Eurosport, distribution revenue increased 7%. The increase was mostly due to increases in affiliate rates and subscribers, in equivalent amounts, in Latin America and, to a lesser extent, increases in subscribers in CEEMEA and digital distribution revenue. Such growth is consistent with the continued development of the pay-TV markets in those regions.

Excluding the impact of foreign currency fluctuations, the acquisition of Eurosport, and the disposition of the Company's radio business, advertising revenue increased 11%. The increase 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.

Excluding the impact of foreign currency fluctuations, the acquisition of Eurosport, and the disposition of the Company's radio business, other revenue increased 13% mostly as result of increased program sales.

Costs of Revenues

Excluding the impact of foreign currency fluctuations, the acquisition of Eurosport, and the disposition of the Company's radio business, costs of revenues increased 12%. The increase was mostly attributable to our commitment to increased spending on content on our networks, thereby increasing 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 and Eurosport, content amortization was $730 million and $658 million for 2015 and 2014, respectively. Content amortization rates on our networks have been slightly accelerating.

Selling, General and Administrative

Excluding the impact of foreign currency fluctuations, the acquisition of Eurosport, and the disposition of the Company's radio business, selling, general and administrative expenses increased 10%. The increase was mostly due to increased personnel and associated support costs and, to a lesser extent, increased marketing costs.

Adjusted OIBDA

Excluding the impact of foreign currency fluctuations, the acquisition of Eurosport, and the disposition of the Company's radio business, Adjusted OIBDA increased 5%. The increase was mostly due to an increase in advertising and distribution revenue, partially offset by higher content expense and, to a lesser extent, higher selling, general, and administrative costs.

Education and Other

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

	Year Ended December 31,		
	2015	2014	% Change
Revenues	$ 173	$ 160	8 %
Costs of revenues, excluding depreciation and amortization	(75)	(59)	27 %
Selling, general and administrative	(100)	(95)	5 %
Adjusted OIBDA	(2)	6	NM
Depreciation and amortization	(7)	(7)	— %
Restructuring and other charges	(2)	(3)	(33)%
Inter-segment eliminations	11	9	22 %
Operating income	$ —	$ 5	(100)%

Adjusted OIBDA decreased $8 million. The decrease was primarily due to activities associated with Education's digital textbooks partially offset by increases in production revenue.

Corporate and Inter-segment Eliminations

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

	Year Ended December 31,		
	2015	2014	% Change
Revenues	$ (2)	$ (2)	— %
Costs of revenues, excluding depreciation and amortization	(1)	—	NM
Selling, general and administrative	(332)	(317)	5 %
Adjusted OIBDA	(335)	(319)	5 %
Mark-to-market equity-based compensation	—	(31)	(100)%
Depreciation and amortization	(59)	(58)	2 %
Restructuring and other charges	(1)	(2)	(50)%
Operating loss	$ (395)	$ (410)	(4)%

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

Adjusted OIBDA decreased 5%, mostly attributable to higher personnel costs and, to a lesser extent, fees related to investments and other matters, partially offset by a decrease in equity-based compensation expense for equity-settled awards such as stock options and RSUs that are recorded at fair value at grant date and amortized over the vesting period without mark-to-market adjustments.

The decrease in mark-to-market equity-based compensation expense was primarily attributable to a decrease in Discovery's stock price compared to 2014. Changes in stock price are a key driver of fair value estimates used in the attribution of expense for SARs and unit awards. (See Note 13 to the accompanying consolidated financial statements.)

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 2015 and 2014, the Company has identified foreign currency and the impact of the acquisition of Eurosport as items impacting comparability between periods, 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 “2015 Baseline Rate”) and the prior year amounts translated at the same 2015 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,			
	2015	2014	% Change (Reported)	% Change (ex-FX)
Revenues:				
Distribution	$3,068	$2,842	8 %	9 %
Advertising	3,004	3,089	(3)%	1 %
Other	322	334	(4)%	(2)%
Total revenues	6,394	6,265	2 %	4 %
Costs of revenue, excluding depreciation and amortization	2,343	2,124	10 %	15 %
Selling, general and administrative expense	1,669	1,661	— %	3 %
Add: Amortization of deferred launch incentives	16	11	45 %	36 %
Adjusted OIBDA	$2,398	$2,491	(4)%	(4)%

International Networks	Year Ended December 31,			
	2015	2014	% Change (Reported)	% Change (ex-FX)
Revenues:				
Distribution	$1,637	$1,553	5 %	7 %
Advertising	1,353	1,483	(9)%	(2)%
Other	102	121	(16)%	(11)%
Total revenues	3,092	3,157	(2)%	2 %
Costs of revenue, excluding depreciation and amortization	1,375	1,250	10 %	19 %
Selling, general and administrative expenses	772	794	(3)%	2 %
Add: Amortization of deferred launch incentives	16	11	45 %	36 %
Adjusted OIBDA	$961	$1,124	(15)%	(16)%

Newly Acquired Businesses

On May 30, 2014, we acquired a controlling interest in Eurosport International. On March 31, 2015, we acquired a controlling interest in Eurosport France and integrated the business into Eurosport International, collectively referred to as Eurosport. (See Note 3 to the accompanying consolidated financial statements.) We included the operations of Eurosport International and Eurosport France in our consolidated financial statements as of their respective acquisition dates. As a result, Eurosport has impacted the comparability of our results of operations between 2015 and 2014. Accordingly, to assist the reader in understanding the changes in our results of operations, the results of operations for the years ended December 31, 2015 and 2014 excluding Eurosport are presented in the tables below (in millions). The results of operations for Eurosport do not reflect the synergies from increased pan-European market penetration, which are reflected in the total Company excluding Eurosport amounts. Adjustments for Discovery Family, which was acquired on September 23, 2014, the Company's radio business in Northern Europe, which was disposed of on June 30, 2015, and other less significant acquisitions made during 2015 and 2014, were not made in the comparability tables as their results did not materially impact the comparability of operations, except as otherwise noted within this Item. Adjusted OIBDA is defined and a reconciliation to operating income is presented below in "Segment Results of Operations – 2015 vs. 2014."

Consolidated	Year Ended December 31,						
	2015			2014			
	Total Company As Reported	Eurosport	Total Company Ex-Eurosport	Total Company As Reported	Eurosport	Total Company Ex-Eurosport	% Change Ex-Eurosport
Revenues:							
Distribution	$3,068	$ 354	$ 2,714	$2,842	$ 198	$ 2,644	3 %
Advertising	3,004	98	2,906	3,089	69	3,020	(4)%
Other	322	55	267	334	63	271	(1)%
Total Revenues	$6,394	$ 507	$ 5,887	$6,265	$ 330	$ 5,935	(1)%
Adjusted OIBDA	$2,398	$ 37	$ 2,361	$2,491	$ 68	$ 2,423	(3)%

International Networks	Year Ended December 31,						
	2015			2014			
	International Networks As Reported	Eurosport	International Networks Ex-Eurosport	International Networks As Reported	Eurosport	International Networks Ex-Eurosport	% Change Ex-Eurosport
Revenues:							
Distribution	$1,637	$ 354	$ 1,283	$1,553	$ 198	$ 1,355	(5)%
Advertising	1,353	98	1,255	1,483	69	1,414	(11)%
Other	102	55	47	121	63	58	(19)%
Total Revenues	$3,092	$ 507	$ 2,585	$3,157	$ 330	$ 2,827	(9)%
Adjusted OIBDA	$961	$ 37	$ 924	$1,124	$ 68	$ 1,056	(13)%

There are no other items impacting comparability.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

Sources of Cash

Historically, we have generated a significant amount of cash from operations. During the year ended December 31, 2016, we funded our working capital needs primarily through cash flows from operations. As of December 31, 2016, we had $300 million of cash and cash equivalents on hand. We maintain an effective Registration Statement on Form S-3 that allows us to conduct registered offerings of securities, including debt securities, common stock and preferred stock. Access to sufficient capital from the public market is not assured.

• Debt

Senior Notes

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

Revolving Credit Facility

We have access to a $2.0 billion revolving credit facility. Borrowing capacity under this agreement is reduced by the outstanding borrowings under our commercial paper program. As of December 31, 2016, the Company had outstanding borrowings under the revolving credit facility of $550 million at a weighted average interest rate of 2.05%. The revolving credit facility agreement provides for a maturity date of February 4, 2021, and the option for two additional 364-day renewal periods. All obligations of DCL and the other borrowers under the revolving credit facility are unsecured and are fully and unconditionally guaranteed by Discovery. Borrowings may be used for general corporate purposes.

The credit agreement governing the revolving credit facility (the “Credit Agreement”) contains customary representations, warranties and events of default, as well as affirmative and negative covenants, including limitations on liens, investments, indebtedness, dispositions, affiliate transactions, dividends and restricted payments. DCL, its subsidiaries and Discovery are also subject to a limitation on mergers, liquidation and disposals of all or substantially all of their assets. The Credit Agreement also requires DCL to maintain a consolidated interest coverage ratio (as defined in the Credit Agreement) of no less than 3:00 to 1:00 and a consolidated leverage ratio (as defined in the Credit Agreement) of no more than 4:50 to 1:00. As of December 31, 2016, Discovery, DCL and the other borrowers were in compliance with all covenants and there were no events of default under the Credit Agreement.

Commercial Paper

Under our commercial paper program and subject to market conditions, DCL may issue unsecured commercial paper notes guaranteed by the Company from time to time up to an aggregate principal amount outstanding at any given time of $1.0 billion. The maturities of these notes will vary but may not exceed 397 days. The notes may be issued at a discount or at par, and interest rates vary based on market conditions and the credit ratings assigned to the notes at the time of issuance. As of December 31, 2016, we had $48 million of commercial paper borrowings outstanding with a weighted average interest rate of approximately 1.20% and maturities of less than 90 days. Borrowings under the commercial paper program reduce the borrowing capacity under the revolving credit facility arrangement referenced above.

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

• Notes Receivable

We have an outstanding note receivable from OWN, our equity method investee, which totals $311 million including accrued interest. During the years ended December 31, 2016 and 2015, the Company received net repayments from OWN of $87 million and $82 million, respectively. Borrowings are scheduled for repayment four years after the borrowing date to the extent that OWN has excess cash to repay the borrowings then due.

Uses of Cash

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

• Content Acquisition

We plan to continue to invest significantly in the creation and acquisition of new content. Additional information regarding contractual commitments to acquire content is set forth in “Commitments and Off-Balance Sheet

Arrangements" in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Annual Report on Form 10-K.

• Common Stock Repurchase Program

Under the Company's stock repurchase program, management is authorized to purchase shares of the Company's common stock from time to time through open market purchases or privately negotiated transactions at prevailing prices or pursuant to one or more accelerated stock repurchase or other derivative arrangements as permitted by securities laws and other legal requirements and subject to stock price, business and market conditions and other factors. As of December 31, 2016, the Company had repurchased 3 million and 150 million shares of Series A and Series C common stock over the life of the program for the aggregate purchase price of $171 million and $6.2 billion, respectively. Over the life of the program, authorization under the stock repurchase program has totaled $7.5 billion. As of December 31, 2016, the Company had remaining authorization of approximately $1.1 billion for future repurchases under the existing stock repurchase program, which will expire on October 8, 2017. (See Note 12 to the accompanying consolidated financial statements.) We have been funding our stock repurchases through a combination of cash on hand, cash generated by operations and the issuance of debt. In the future we may also choose to fund our stock repurchase program through borrowings under our revolving credit facility and future financing transactions.

• Prepayments for Repurchase of Common Stock

During the year ended December 31, 2016, we entered into two prepaid common stock repurchase contracts for the Company's Series C common stock, one of which settled via the receipt of common stock during the quarter ended December 31, 2016 and one which will settle in the first quarter of 2017. We made up-front cash-payments totaling $128 million for the two common stock repurchase contracts during 2016. The common stock repurchase contract that settled during the year ended December 31, 2016 settled at a cost of $71 million. (See Note 12 to the accompanying consolidated financial statements.)

• Preferred Stock Conversion and Repurchase

We have an agreement with Advance/Newhouse to repurchase, on a quarterly basis, a number of shares of Series C convertible preferred stock convertible into 3/7 of the number of shares of Series C common stock purchased under the Company's stock repurchase program during the then most recently completed fiscal quarter. The price paid per share is calculated as 99% of the average price paid for the Series C common shares repurchased by the Company during the applicable fiscal quarter multiplied by the Series C conversion rate. The Advance/Newhouse repurchases are made outside of the Company's publicly announced stock repurchase program. During 2016, we converted, repurchased and retired 9 million shares of our Series C convertible preferred stock under the preferred stock conversion and repurchase arrangement for an aggregate purchase price of $479 million. The Company expects to convert, repurchase and retire approximately 1 million shares of its Series C convertible preferred stock for an aggregate purchase price of approximately $60 million on or about February 16, 2017. (See Note 12 to the accompanying consolidated financial statements.)

• Income Taxes and Interest

We expect to continue to make payments for income taxes and interest on our outstanding senior notes. During the year ended December 31, 2016, we made cash payments of $527 million and $343 million for income taxes and interest on our outstanding debt, respectively.

• Business Combinations and Investments

Our uses of cash have included investment in business combinations (see Note 3 to the accompanying consolidated financial statements), equity method investments, AFS securities and cost method investments (see Note 4 to the accompanying consolidated financial statements). Due to business combinations, we also have redeemable equity balances of $243 million, which may require the use of cash in the event holders of noncontrolling interests put their interests to the Company.

We provide funding to our equity method investees from time to time. As of December 31, 2016, we have outstanding advances to and a note receivable from OWN, our equity method investee, which totals $311 million including interest. During December 2016, the Company invested $63 million in limited liability companies that sponsor renewable energy projects related to solar energy. The Company has total funding commitments of $238 million related to these projects, which is expected to be invested in 2017.

• Equity-Based Compensation

We expect to continue to make payments for vested cash-settled equity awards. Actual amounts expensed and payable for cash-settled awards are dependent on future fair value calculations which are primarily affected by changes in our stock price as well as changes in the number of awards outstanding. During 2016, we paid $5 million for cash-settled equity awards. As of December 31, 2016, liabilities totaled $83 million for outstanding liability-classified equity-based compensation awards, of which $31 million was classified as current. (See Note 13 to the accompanying consolidated financial statements.)

Cash Flows

Changes in cash and cash equivalents were as follows (in millions).

	Year Ended December 31,		
	2016	2015	2014
Cash and cash equivalents, beginning of period	$390	$367	$408
Cash provided by operating activities	1,373	1,277	1,318
Cash used in investing activities	(256)	(301)	(568)
Cash used in financing activities	(1,177)	(902)	(734)
Effect of exchange rate changes on cash and cash equivalents	(30)	(51)	(57)
Net change in cash and cash equivalents	(90)	23	(41)
Cash and cash equivalents, end of period	$300	$390	$367

Operating Activities

Cash provided by operating activities increased $96 million for the year ended December 31, 2016 as compared to the year ended December 31, 2015. Improvements in operating results were partially offset by increases in content spending, particularly for sports rights, of $131 million and the impact of foreign currency.

Cash provided by operating activities decreased $41 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. The decrease was primarily attributable to negative foreign currency fluctuations that impacted the Company's operating performance, increased content investment of $90 million and decreases in working capital of $182 million due to decreases in accounts payable and accruals. These decreases were partially offset by a decrease in cash payments for equity-based compensation of $56 million.

Investing Activities

Cash flows used in investing activities decreased $45 million for the year ended December 31, 2016 as compared to the year ended December 31, 2015. The decrease was primarily attributable to a decrease in cash paid for business combinations, net of cash acquired of $80 million, partially offset by a decrease in proceeds from dispositions of business of $42 million.

Cash flows used in investing activities decreased $267 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. The decrease was primarily attributable to a decrease in cash paid for business combinations, net of cash acquired of $292 million and partially offset by an increase in payments for investments, net of $92 million.

Financing Activities

Cash flows used in financing activities increased $275 million for the year ended December 31, 2016 as compared to the year ended December 31, 2015. The increase was attributable to an increase in repurchases of stock of $423 million and a decrease in net borrowings of $471 million, which is comprised of increases in repayments on the revolver loans, net of repayments, of $973 million partially offset by increased borrowings of senior notes, net of repayments, of $411 million and decreases in commercial paper repayments of $91 million. These net increases were partially offset by decreases in purchases of redeemable noncontrolling interests of $548 million and payments on hedging instruments for derivatives in connection with the effective portion of interest rate contracts of $69 million.

Cash flows used in financing activities increased $168 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. The increase was primarily due to the purchase of TF1's 49% noncontrolling interest in Eurosport for $548 million, an increase in net repayments of commercial paper of $365 million, an increase in cash distributions to redeemable noncontrolling interests of $40 million and payments on hedging instruments for derivatives in connection with the effective portion of our interest rate contracts of $29 million. These increases were partially offset by increased borrowings under the revolving credit facility of $318 million and a decrease in repurchases of stock of $471 million.

Capital Resources

As of December 31, 2016, capital resources were comprised of the following (in millions).

	December 31, 2016			
	Total Capacity	Outstanding Letters of Credit	Outstanding Indebtedness	Unused Capacity
Cash and cash equivalents	$300	$ —	$ —	$ 300
Revolving credit facility and commercial paper program[a]	2,000	1	598	1,401
Senior notes[b]	7,241	—	7,241	—
Total	$9,541	$ 1	$ 7,839	$ 1,701

[a] Outstanding commercial paper borrowings of $48 million as of December 31, 2016 are supported by unused committed capacity under the revolving credit facility and reduce unused capacity. There were $550 million in borrowings under the revolving credit facility outstanding as of December 31, 2016.

[b] Interest on senior notes is paid annually or semi-annually. Our senior notes outstanding as of December 31, 2016 had interest rates that ranged from 1.90% to 6.35% and will mature between 2019 and 2043.

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

As of December 31, 2016, we held $86 million of our $300 million of cash and cash equivalents in our foreign subsidiaries. We intend to permanently reinvest these funds outside of the U.S. Our current plans do not demonstrate a need to repatriate them to the U.S. However, if these funds are needed in the U.S., we would be required to accrue and pay U.S. taxes to repatriate them. The determination of the amount of unrecognized U.S. deferred income tax liability with respect to these undistributed foreign earnings is not practicable.

Additional information regarding the changes in our outstanding indebtedness and the significant terms and provisions of our revolving credit facility and outstanding indebtedness is discussed in Note 9 to the accompanying consolidated financial statements included in Item 8, “Financial Statements and Supplementary Data” in this Annual Report on Form 10-K.

COMMITMENTS AND OFF-BALANCE SHEET ARRANGEMENTS

Obligations

As of December 31, 2016, our significant contractual obligations, including related payments due by period, were as follows (in millions).

	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-term debt:					
Principal payments	$7,241	$ —	$ 500	$ 1,950	$ 4,791
Interest payments	4,037	310	544	449	2,734
Capital lease obligations:					
Principal payments	151	34	35	29	53
Interest payments	33	7	11	7	8
Operating lease obligations	198	56	87	34	21
Content	3,598	939	962	872	825
Other	1,314	546	456	191	121
Total	$16,572	$ 1,892	$ 2,595	$ 3,532	$ 8,553

The above table does not include certain long-term obligations as the timing or the amount of the payments cannot be predicted. For example, as of December 31, 2016, we have recorded $243 million for redeemable equity (see Note 11 to the accompanying consolidated financial statements), although we are unable to predict reasonably the ultimate amount or timing of any payment. The current portion of the liability for cash-settled equity-based compensation awards was $31 million as of December 31, 2016. Additionally, reserves for unrecognized tax benefits have been excluded from the above table because we are unable to predict reasonably the ultimate amount or timing of settlement. Our unrecognized tax benefits totaled $117 million as of December 31, 2016.

The above table also does not include DCL's revolving credit facility that, during the year ended December 31, 2016, allowed DCL and certain designated foreign subsidiaries of DCL to borrow up to $2.0 billion, including a $100 million sublimit for the issuance of standby letters of credit and a $50 million sublimit for swingline loans. Borrowing capacity under this agreement is reduced by the outstanding borrowings under the commercial paper program discussed below. As of December 31, 2016, the revolving credit facility agreement provided for a maturity date of February 4, 2021 and the option for up to two additional 364-day renewal periods.

From time to time we may provide our equity method investees additional funding that has not been committed to as of December 31, 2016 based on unforeseen investee opportunities or cash flow needs. (see Note 4.)

Long-term Debt

Principal payments on long-term debt reflect the repayment of our outstanding senior notes, at face value, assuming repayment will occur upon maturity. Interest payments on our outstanding senior notes are projected based on their contractual rate and maturity.

Capital Lease Obligations

We acquire satellite transponders and other equipment through multi-year capital lease arrangements. Principal payments on capital lease obligations reflect amounts due under our capital lease agreements. Interest payments on our outstanding capital lease obligations are based on the stated or implied rate in our capital lease agreements.

Operating Lease Obligations

We obtain office space and equipment under multi-year lease arrangements. Most operating leases are not cancelable prior to their expiration. Payments for operating leases represent the amounts due under the agreements assuming the agreements are not canceled prior to their expiration.

Purchase Obligations

Content purchase obligations include commitments and liabilities associated with third-party producers and sports associations for content that airs on our television networks. Production contracts generally require: purchase of a specified number of episodes; payments over the term of the license; and include both programs that have been delivered and are available for airing and programs that have not yet been produced or sporting events that have not yet taken place. If the content is ultimately never produced, our commitments expire without obligation. The commitments disclosed above exclude content liabilities recognized on the consolidated balance sheet. We expect to enter into additional production contracts and content licenses to meet our future content needs.

Other purchase obligations include agreements with certain vendors and suppliers for the purchase of goods and services whereby the underlying agreements are enforceable, legally binding and specify all significant terms. Significant purchase obligations include transmission services, television rating services, marketing research, employment contracts, equipment purchases, and information technology and other services. The Company has contracts that do not require the purchase of fixed or minimum quantities and generally may be terminated with a 30-day to 60-day advance notice without penalty, and are not included in the table above past the 30-day to 60-day advance notice period. Amounts related to employment contracts include base compensation and do not include compensation contingent on future events.

Put Rights

The Company has granted put rights related to an equity method investment and certain consolidated subsidiaries. Harpo has the right to require the Company to purchase all or part of its interest in OWN for fair value during a 90-day window every two and a half years commencing April 1, 2017. No amounts have been recorded by the Company for the Harpo put right. (See Note 4 to the accompanying consolidated financial statements.) Hasbro, Inc. ("Hasbro") and Jupiter Telecommunications Co., Ltd. ("J:COM") have the right to require the Company to purchase their remaining noncontrolling interests in Discovery Family and Discovery Japan, respectively. The

Company recorded the value of the put rights for Discovery Family and Discovery Japan as a component of redeemable equity in the amounts of $216 million and $27 million, respectively. On July 22, 2015, TF1 exercised its right to put the entirety of its remaining 49% noncontrolling interest in Eurosport to the Company for €491 million ($551 million as of the date redemption became mandatory). The transaction closed on October 1, 2015 for $548 million. (See Note 11 to the accompanying consolidated financial statements.)

Off-Balance Sheet Arrangements

We have no material off-balance sheet arrangements (as defined in Item 303(a)(4) of Regulation S-K) that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

RELATED PARTY TRANSACTIONS

In the ordinary course of business we enter into transactions with related parties, primarily our equity method investees and Liberty Entities. Information regarding transactions and amounts with related parties is discussed in Note 19 to the accompanying consolidated financial statements included in Item 8, “Financial Statements and Supplementary Data” in this Annual Report on Form 10-K.

NEW ACCOUNTING AND REPORTING PRONOUNCEMENTS

We adopted certain accounting and reporting standards during 2016. Information regarding our adoption of new accounting and reporting standards is discussed in Note 2 to the accompanying consolidated financial statements included in Item 8, “Financial Statements and Supplementary Data” in this Annual Report on Form 10-K.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our consolidated financial statements are prepared in accordance with GAAP, which requires management to make estimates, judgments and assumptions that affect the amounts reported in the consolidated financial statements included in this Annual Report on Form 10-K and accompanying notes. Management considers an accounting policy to be critical if it is important to reporting our financial condition and results of operations, and if it requires significant judgment and estimates on the part of management in its application. The development and selection of these critical accounting policies have been determined by management and the related disclosures have been reviewed with the Audit Committee of the Board of Directors of the Company. We consider policies relating to the following matters to be critical accounting policies:

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

With respect to our accounting policy for goodwill, we further supplement disclosures in Note 2 with the following:

Goodwill is allocated to our reporting units, which are our operating segments or one level below our operating segments (the component level). Reporting units are determined by the discrete financial information available for the component and whether it is regularly reviewed by segment management. Components are aggregated into a single reporting unit if they share similar economic characteristics. Our reporting units are as follows: U.S. Networks, Europe, Latin America, Asia-Pacific, Education, and Studios.

We evaluate our goodwill for impairment annually as of November 30 or earlier upon the occurrence of substantive unfavorable changes in economic conditions, industry trends, costs, cash flows, or ongoing declines in market capitalization. If we believe that as a result of our qualitative assessment it is more likely than not that the fair value of a reporting unit is greater than its carrying amount, a quantitative impairment test is not required.

For 2016, we performed a quantitative goodwill impairment test for our reporting units based on our policy of performing a quantitative impairment test every three years, irrespective of the outcome of the qualitative assessment. The quantitative impairment test requires judgment, including the identification of reporting units, the assignment of assets, liabilities and goodwill to reporting units, and the determination of fair value of each reporting unit. The first step of the test requires the comparison of the fair value of each reporting unit with its carrying amount, including goodwill. In performing the first step, we determined the fair value of our reporting units by using a combination of discounted cash flow (“DCF”) analyses and market-based valuation

methodologies. Determining fair value requires the Company to make judgments about appropriate discount rates, perpetual growth rates, relevant comparable company earnings multiples and the amount and timing of expected future cash flows. The cash flows employed in the DCF analysis for each reporting unit are based on the reporting unit's budget, long-term business plan, and recent operating performance. Discount rate assumptions are based on an assessment of the risk inherent in the future cash flows of the respective reporting unit and market conditions. Given the inherent uncertainty in determining the assumptions underlying a DCF analysis, actual results may differ from those used in our valuations. In assessing the reasonableness of the determined fair values, we also reconciled the aggregate determined fair value of the Company to the Company's market capitalization, which included a 14% control premium.

The net assets assigned to each of our reporting units included corporate allocations. These assets and liabilities include corporate enterprise goodwill and intangible assets, allocated to each reporting unit based on the relative fair value of each reporting unit at inception, and deferred taxes and content, allocated to each reporting unit based on the jurisdiction that gave rise to the deferred tax balance or is using the content asset.

For the current year test, the fair value of the reporting units exceeded the respective carrying values by 12% to 83% ("headroom"). Significant assumptions used in the DCF and market-based models included exchange rates used in the Long Range Plan ("LRP"), discount rates that ranged from 9% to 12.5%, and guideline company earnings multiples and control premiums. An increase in the discount and decrease in the long-term growth rates of 0.5% would result in the fair value of the reporting units exceeding their respective carrying values by 5% to 82%.

The Europe reporting unit, which had headroom of 12%, was the only reporting unit with fair value in excess of carrying value of less than 20%. As of December 31, 2016, the carrying value of goodwill assigned to the Europe reporting unit was $2.2 billion. Management will continue to monitor this reporting unit for changes in the business environment that could impact recoverability. The recoverability of goodwill is dependent upon the continued growth of cash flows from our business activities. See Item 1A, "Risk Factors" for details on all significant risks that could impact the Company's ability to successfully grow its cash flows. Most significantly, changes in foreign exchange rates impact on the calculation of fair value in excess of carrying value for Step 1 of the goodwill impairment test. As the Europe reporting unit operates in foreign markets with various functional currencies and has significant U.S. dollar denominated assets, a strengthening of the U.S. dollar negatively impacts the fair value of the reporting unit and the calculation of excess carrying value.

For an in depth discussion of each of our significant accounting policies, including our critical accounting policies and further information regarding estimates and assumptions involved in their application, see Note 2 to the accompanying consolidated financial statements included in Item 8, “Financial Statements and Supplementary Data” in this Annual Report on Form 10-K.

ITEM 7A. Quantitative and Qualitative Disclosures about Market Risk.

Our financial position, earnings and cash flows are exposed to market risks and can be affected by, among other things, economic conditions, interest rate changes, foreign currency fluctuations, and changes in the market values of investments. We have established policies, procedures and internal processes governing our management of market risks and the use of financial instruments to manage our exposure to such risks.

Interest Rates

We are exposed to the impact of interest rate changes primarily through our potential borrowing activities. During the year ended December 31, 2016, we had access to a $2.0 billion revolving credit facility and a commercial paper program with outstanding borrowings of $550 million and $48 million, respectively, as of December 31, 2016. The interest rate on borrowings under the revolving credit facility is variable based on an underlying index and DCL's then-current credit rating for its publicly traded debt. The revolving credit facility provides for a maturity date of February 4, 2021 and the option for up to two additional 364-day renewal periods. As of December 31, 2016, we had outstanding debt with a book value of $7.2 billion under various public senior notes with fixed interest rates.

Our current objectives in managing exposure to interest rate changes are to limit the impact of interest rates on earnings and cash flows. To achieve these objectives, we may enter into variable interest rate swaps, effectively converting fixed rate borrowings to variable rate borrowings indexed to LIBOR, in order to reduce the amount of

interest paid. As of December 31, 2016 we have no outstanding interest rate swaps.
As of December 31, 2016, the fair value of our outstanding public senior notes was $7.4 billion. The fair value of our long-term debt may vary as a result of market conditions and other factors. A change in market interest rates will impact the fair market value of our fixed rate debt. The potential change in fair value of these senior notes from an adverse 100 basis-point change in quoted interest rates across all maturities, often referred to as a parallel shift in the yield curve, would be approximately $557 million as of December 31, 2016.

Foreign Currency Exchange Rates

We transact business globally and are subject to risks associated with changing foreign currency exchange rates. Market risk refers to the risk of loss arising from adverse changes in foreign currency exchange rates. The risk of loss can be assessed from the perspective of adverse changes in fair values, cash flows and future earnings. Through December 31, 2016, our International Networks segment is divided into the following five regions: Northern Europe, CEEMEA, Southern Europe, Latin America and Asia-Pacific. Cash is primarily managed from five global locations with net earnings reinvested locally and working capital requirements met from existing liquid funds. To the extent such funds are not sufficient to meet working capital requirements, draw downs in the appropriate local currency are available from intercompany borrowings or drawdowns from our revolving credit facility. The earnings of certain international operations are expected to be reinvested in those businesses indefinitely.

The functional currency of most of our international subsidiaries is the local currency. We are exposed to foreign currency risk to the extent that we enter into transactions denominated in currencies other than our subsidiaries' respective functional currencies ("non-functional currency risk"). Such transactions include affiliate and ad sales arrangements, content arrangements, equipment and other vendor purchases and intercompany transactions. Changes in exchange rates with respect to amounts recorded in our consolidated balance sheets related to these items will result in unrealized foreign currency transaction gains and losses based upon period-end exchange rates. We also record realized foreign currency transaction gains and losses upon settlement of the transactions. Moreover, we will experience fluctuations in our revenues, costs and expenses solely as a result of changes in foreign currency exchange rates.

We also are exposed to unfavorable and potentially volatile fluctuations of the U.S. dollar, which is our reporting currency, against the currencies of our operating subsidiaries when their respective financial statements are translated into U.S. dollars for inclusion in our consolidated financial statements. Cumulative translation adjustments are recorded in accumulated other comprehensive (loss) income as a separate component of equity. Any increase or decrease in the value of the U.S. dollar against any foreign functional currency of one of our operating subsidiaries will cause us to experience unrealized foreign currency translation gains (losses) with respect to amounts already invested in such foreign currencies. Accordingly, we may experience a negative impact on our net income, other comprehensive income and equity with respect to our holdings solely as a result of changes in foreign currency.

The majority of our foreign currency exposure is to the euro, the British pound, currencies in the Nordics, the Japanese yen and the Russian ruble. We may enter into spot, forward and option contracts that change in value as foreign currency exchange rates change to hedge certain exposures associated with affiliate revenue, the cost for producing or acquiring content, certain intercompany transactions or in connection with forecasted business combinations. These contracts hedge forecasted foreign currency transactions in order to mitigate fluctuations in our earnings and cash flows associated with changes in foreign currency exchange rates. Our objective in managing exposure to foreign currency fluctuations is to reduce volatility of earnings and cash flows. The net market value of our foreign currency derivative instruments held at December 31, 2016 was an asset value of $13 million. Most of our non-functional currency risks related to our revenue, operating expenses and capital expenditures that were not hedged as of December 31, 2016. We generally do not hedge against the risk that we may incur non-cash losses upon the translation of the financial statements of our subsidiaries and affiliates into U.S. dollars.

Derivatives

We may use derivative financial instruments to modify our exposure to market risks from changes in foreign currency exchange rates, interest rates, and the fair value of investments classified as AFS securities. We do not use derivative financial instruments unless there is an underlying exposure. While derivatives are used to mitigate cash flow risk and the risk of declines in fair value, they also limit potential economic benefits to our business in the event of positive shifts in foreign currency exchange rates, interest rates and market values. We do not hold or enter into financial instruments for speculative trading purposes.

Market Values of Investments

In addition to derivatives, we had investments in entities accounted for using the equity method, cost method, AFS securities, and other highly liquid instruments, such as mutual funds, that are accounted for at fair value. The carrying values of investments in equity method investees, cost method investees, AFS securities and mutual funds were $557 million, $245 million, $128 million and $160 million, respectively, at December 31, 2016. Investments in mutual funds include both fixed rate and floating rate interest earning securities that carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than predicted if interest rates fall. Due in part to these factors, our income from such investments may decrease in the future.

ITEM 8. Financial Statements and Supplementary Data.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Discovery Communications, Inc. (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) and Rule 15d-15(f) of the Securities Exchange Act of 1934, as amended. The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and disposition of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and provide reasonable assurance that receipts and expenditures of the Company are being made only in accordance with authorizations of management and the directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the consolidated financial statements.

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements prepared for external purposes in accordance with generally accepted accounting principles. Because of the inherent limitations in any internal control, no matter how well designed, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the Company's system of internal control over financial reporting as of December 31, 2016 based on the framework set forth in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its evaluation, management concluded that, as of December 31, 2016, the Company's internal control over financial reporting was effective at a reasonable assurance level based on the specified criteria.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2016 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report in Item 8 of Part II of this Annual Report on Form 10-K under the caption "Report of Independent Registered Public Accounting Firm."

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
To the Board of Directors and
the Stockholders of Discovery Communications, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of comprehensive income, of equity and of cash flows present fairly, in all material respects, the financial position of Discovery Communications, Inc. and its subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

McLean, Virginia
February 14, 2017

DISCOVERY COMMUNICATIONS, INC.
CONSOLIDATED BALANCE SHEETS
(in millions, except par value)

	December 31, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$300	$390
Receivables, net	1,495	1,479
Content rights, net	310	313
Deferred income taxes	97	68
Prepaid expenses and other current assets	397	346
Total current assets	2,599	2,596
Noncurrent content rights, net	2,089	2,030
Property and equipment, net	482	488
Goodwill, net	8,040	8,164
Intangible assets, net	1,512	1,730
Equity method investments, including note receivable	557	567
Other noncurrent assets	479	289
Total assets	$15,758	$15,864
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$241	$282
Accrued liabilities	1,075	988
Deferred revenues	163	190
Current portion of debt	82	119
Total current liabilities	1,561	1,579
Noncurrent portion of debt	7,841	7,616
Deferred income taxes	553	556
Other noncurrent liabilities	393	421
Total liabilities	10,348	10,172
Commitments and contingencies (See Note 20)		
Redeemable noncontrolling interests	243	241
Equity:		
Discovery Communications, Inc. stockholders' equity:		
Series A convertible preferred stock: $0.01 par value; 75 shares authorized; 71 shares issued	1	1
Series C convertible preferred stock: $0.01 par value; 75 shares authorized; 28 and 38 shares issued	1	1
Series A common stock: $0.01 par value; 1,700 shares authorized; 155 and 153 shares issued	1	1
Series B convertible common stock: $0.01 par value; 100 shares authorized; 7 shares issued	—	—
Series C common stock: $0.01 par value; 2,000 shares authorized; 381 and 376 shares issued	4	4
Additional paid-in capital	7,046	7,021
Treasury stock, at cost	(6,356)	(5,461)
Retained earnings	5,232	4,517
Accumulated other comprehensive loss	(762)	(633)
Total equity	5,167	5,451
Total liabilities and equity	$15,758	$15,864

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

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

	Year Ended December 31,		
	2016	2015	2014
Revenues:			
Distribution	$3,213	$3,068	$2,842
Advertising	2,970	3,004	3,089
Other	314	322	334
Total revenues	6,497	6,394	6,265
Costs and expenses:			
Costs of revenues, excluding depreciation and amortization	2,432	2,343	2,124
Selling, general and administrative	1,690	1,669	1,692
Depreciation and amortization	322	330	329
Restructuring and other charges	58	50	90
(Gain) loss on disposition	(63)	17	(31)
Total costs and expenses	4,439	4,409	4,204
Operating income	2,058	1,985	2,061
Interest expense	(353)	(330)	(328)
(Loss) income from equity investees, net	(38)	1	23
Other income (expense), net	4	(97)	(9)
Income before income taxes	1,671	1,559	1,747
Income tax expense	(453)	(511)	(610)
Net income	1,218	1,048	1,137
Net income attributable to noncontrolling interests	(1)	(1)	(2)
Net (income) loss attributable to redeemable noncontrolling interests	(23)	(13)	4
Net income available to Discovery Communications, Inc.	$1,194	$1,034	$1,139
Net income per share available to Discovery Communications, Inc. Series A, B and C common stockholders:			
Basic	$1.97	$1.59	$1.67
Diluted	$1.96	$1.58	$1.66
Weighted average shares outstanding:			
Basic	401	432	454
Diluted	610	656	687

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

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

	Year Ended December 31,		
	2016	2015	2014
Net income	$1,218	$1,048	$1,137
Other comprehensive (loss) income, net of tax:			
Currency translation adjustments	(191)	(201)	(399)
Market value adjustments	38	(25)	(2)
Derivative adjustments	24	(1)	(11)
Comprehensive income	1,089	821	725
Comprehensive income attributable to noncontrolling interests	(1)	(1)	(2)
Comprehensive (income) loss attributable to redeemable noncontrolling interests	(23)	10	44
Comprehensive income attributable to Discovery Communications, Inc.	$1,065	$830	$767

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

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

	Year Ended December 31,		
	2016	2015	2014
Operating Activities			
Net income	$1,218	$1,048	$1,137
Adjustments to reconcile net income to cash provided by operating activities:			
Equity-based compensation expense	69	35	78
Depreciation and amortization	322	330	329
Content amortization and impairment expense	1,773	1,709	1,557
(Gain) loss on disposition	(63)	17	(31)
Remeasurement gain on previously held equity interests	—	(2)	(29)
Equity in losses (earnings) of investee companies, net of cash distributions	44	8	(1)
Deferred income taxes	(27)	2	(181)
Realized loss from derivative instruments	3	5	—
Other-than-temporary impairment of AFS investments	62	—	—
Other, net	50	30	44
Changes in operating assets and liabilities, net of business combinations:			
Receivables, net	(25)	(44)	6
Content rights, net	(1,904)	(1,773)	(1,683)
Accounts payable and accrued liabilities	(12)	11	138
Equity-based compensation liabilities	(5)	(25)	(81)
Income taxes receivable and prepaid income taxes	(31)	(64)	40
Foreign currency and other, net	(101)	(10)	(5)
Cash provided by operating activities	1,373	1,277	1,318
Investing Activities			
Payments for investments, net	(272)	(272)	(180)
Purchases of property and equipment	(88)	(103)	(120)
Distributions from equity method investees	87	87	61
Proceeds from dispositions, net of cash disposed	19	61	45
Payments for derivative instruments, net	—	(9)	—
Business acquisitions, net of cash acquired	—	(80)	(372)
Other investing activities, net	(2)	15	(2)
Cash used in investing activities	(256)	(301)	(568)
Financing Activities			
Commercial paper (repayments) borrowings, net	(45)	(136)	229
Borrowings under revolving credit facility	613	1,016	698
Principal repayments of revolving credit facility	(835)	(265)	(660)
Borrowings from debt, net of discount	498	936	415
Principal repayments of debt	—	(849)	—
Principal repayments of capital lease obligations	(28)	(27)	(19)
Repurchases of stock and stock settlements of common stock repurchase contracts	(1,374)	(951)	(1,422)
Prepayments for outstanding common stock repurchase contracts	(57)	—	—
Purchase of redeemable noncontrolling interests	—	(548)	(1)
Distributions to redeemable noncontrolling interests	(22)	(42)	(2)
Equity-based plan proceeds, net	46	6	44
Hedge of borrowings from debt instruments	40	(29)	—
Other financing activities, net	(13)	(13)	(16)

Cash used in financing activities	(1,177)	(902)	(734)
Effect of exchange rate changes on cash and cash equivalents	(30)	(51)	(57)
Net change in cash and cash equivalents	(90)	23	(41)
Cash and cash equivalents, beginning of period	390	367	408
Cash and cash equivalents, end of period	$300	$390	$367

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

DISCOVERY COMMUNICATIONS, INC.
CONSOLIDATED STATEMENTS OF EQUITY
(in millions)

	Preferred Stock		Common Stock		Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Discovery Communications, Inc. Stockholders' Equity	Noncontrolling Interests	Total Equity
	Shares	Par Value	Shares	Par Value							
December 31, 2013	115	$ 2	308	$ 3	$ 6,826	$ (3,531)	$ 2,892	$ 4	$ 6,196	$ 1	$ 6,197
Net income available to Discovery Communications, Inc. and attributable to noncontrolling interests	—	—	—	—	—	—	1,139	—	1,139	2	1,141
Other comprehensive loss	—	—	—	—	—	—	—	(372)	(372)	—	(372)
Repurchases of stock	(2)	—	—	—	—	(1,232)	(190)	—	(1,422)	—	(1,422)
Stock split effected in the form of a share dividend	—	—	224	2	(2)	—	—	—	—	—	—
Equity-based compensation	—	—	—	—	50	—	—	—	50	—	50
Excess tax benefits from equity-based compensation	—	—	—	—	30	—	—	—	30	—	30
Tax settlements associated with equity-based compensation	—	—	—	—	(27)	—	—	—	(27)	—	(27)
Issuance of stock in connection with equity-based plans	—	—	1	—	41	—	—	—	41	—	41
Other adjustments for equity-based plans	—	—	—	—	(6)	—	—	—	(6)	—	(6)
Redeemable noncontrolling interest adjustments to redemption value	—	—	—	—	—	—	(31)	—	(31)	—	(31)
Purchase of redeemable noncontrolling interest	—	—	—	—	5	—	—	—	5	—	5
Cash distributions to noncontrolling interest	—	—	—	—	—	—	—	—	—	(1)	(1)
Other adjustments to stockholders' equity	—	—	—	—	—	—	(1)	—	(1)	—	(1)
December 31, 2014	113	2	533	5	6,917	(4,763)	3,809	(368)	5,602	2	5,604
Net income available to Discovery Communications, Inc. and attributable to noncontrolling interests	—	—	—	—	—	—	1,034	—	1,034	1	1,035

Other comprehensive loss	—	—	—	—	—	—	—	(204)	(204)	—	(204)
Repurchases of stock	(4)	—	—	—	—	(698)	(253)	—	(951)	—	(951)
Equity-based compensation	—	—	—	—	39	—	—	—	39	—	39
Excess tax benefits from equity-based compensation	—	—	—	—	12	—	—	—	12	—	12
Tax settlements associated with equity-based compensation	—	—	—	—	(27)	—	—	—	(27)	—	(27)
Issuance of stock in connection with equity-based plans	—	—	3	—	21	—	—	—	21	—	21
Other adjustments for equity-based plans	—	—	—	—	(2)	—	—	—	(2)	—	(2)
Redeemable noncontrolling interest adjustments to redemption value	—	—	—	—	—	—	(73)	—	(73)	—	(73)
Purchase of redeemable noncontrolling interest	—	—	—	—	61	—	—	(61)	—	—	—
Other adjustments to stockholders' equity	—	—	—	—	—	—	—	—	—	(3)	(3)
December 31, 2015	109	2	536	5	7,021	(5,461)	4,517	(633)	5,451	—	5,451
Net income available to Discovery Communications, Inc. and attributable to noncontrolling interests	—	—	—	—	—	—	1,194	—	1,194	1	1,195
Other comprehensive loss	—	—	—	—	—	—	—	(129)	(129)	—	(129)
Repurchases of stock and stock settlements of common stock repurchase contracts	(9)	—	—	—	—	(895)	(479)	—	(1,374)	—	(1,374)
Prepayments for outstanding common stock repurchase contracts	—	—	—	—	(57)	—	—	—	(57)	—	(57)
Equity-based compensation	—	—	—	—	35	—	—	—	35	—	35
Excess tax benefits from equity-based compensation	—	—	—	—	7	—	—	—	7	—	7
Tax settlements associated with equity-based compensation	—	—	—	—	(11)	—	—	—	(11)	—	(11)
Issuance of stock in connection with	—	—	5	—	51	—	—	—	51	—	51

equity-based plans											
Cash distributions to noncontrolling interests	—	—	—	—	—	—	—	—	—	(1)	(1)
Share conversion	(1)	—	2	—	—	—	—	—	—	—	—
December 31, 2016	99	$ 2	543	$ 5	$ 7,046	$ (6,356)	$ 5,232	$ (762)	$ 5,167	$ —	$ 5,167

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

DISCOVERY COMMUNICATIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Description of Business

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, various digital distribution platforms and content licensing agreements. We also operate a portfolio of websites, digital direct-to-consumer products, production studios and curriculum-based education products and services. The Company presents the following segments: U.S. Networks, consisting principally of domestic television networks and digital content services, and International Networks, consisting principally of international television networks and digital content services; and Education and Other, consisting principally of curriculum-based product and service offerings and production studios. Financial information for Discovery’s reportable segments is discussed in Note 21.

Basis of Presentation

The consolidated financial statements include the accounts of Discovery and its majority-owned subsidiaries in which a controlling interest is maintained. For each non-wholly owned subsidiary, the Company evaluates its ownership and other interests to determine whether it should consolidate the entity or account for its ownership interest as an investment. As part of its evaluation, the Company makes judgments in determining whether the entity is a variable interest entity ("VIE") and, if so, whether it is the primary beneficiary of the VIE and is thus required to consolidate the entity. (See Note 4.) Inter-company accounts and transactions between consolidated entities have been eliminated in consolidation.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting and Reporting Pronouncements Adopted

Presentation of Financial Statements - Going Concern

In August 2014, the Financial Accounting Standards Board ("FASB") issued guidance requiring the Company to perform interim and annual assessments regarding conditions or events that raise substantial doubt about the Company's ability to continue as a going concern for a period of one year after the financial statements are issued, and to provide related disclosures, if applicable. If such conditions or events exist, an entity should disclose that there is substantial doubt about the entity's ability to continue as a going concern for a period of one year after the financial statements are issued, along with the principal conditions or events that raise substantial doubt, management's evaluation of the significance of those conditions or events in relation to the entity's ability to meet its obligations, and management's plans that are intended to mitigate those conditions or events. The Company adopted this guidance for the year ended December 31, 2016, and concluded that there were no conditions or events that raise substantial doubt about the Company's ability to continue as a going concern for one year after the financial statements are issued.

Business Consolidation

In February 2015, the FASB issued guidance that amends the analysis that a reporting entity performs to determine whether it should consolidate certain legal entities. The changes in this guidance include how related parties and de facto agents are considered in the primary beneficiary determination and the analysis for determining whether a fee paid to a decision maker or service provider is a variable interest. The Company adopted this guidance effective January 1, 2016, and there was no effect on the consolidated financial statements.

Business Combinations

In September 2015, the FASB issued new guidance on adjustments to provisional amounts recognized in a business combination, which were recognized on a retrospective basis. Under the new requirements, adjustments will be recognized in the reporting period in which the adjustments are determined. The effects of changes in depreciation, amortization, or other income arising from changes to the provisional amounts, if any, are included in earnings of the reporting period in which the adjustments to the provisional amounts are determined. An entity is also required to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. The Company adopted this guidance effective January 1, 2016, and there was no effect on the consolidated financial statements.

DISCOVERY COMMUNICATIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accounting for Fees Paid in a Cloud Computing Arrangement

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

Reporting Discontinued Operations

In April 2014, the FASB issued guidance that changes the criteria for reporting discontinued operations and requires additional disclosures about discontinued operations and disposals of components of an entity that do not qualify for discontinued operations reporting. Under the new pronouncement, disposal of a component of an entity must represent a strategic shift with a major effect on its operations and financial results in order to be classified as a discontinued operation. The Company's policy is to present the results of operations of a component classified as discontinued operations, as well as any gain or loss on the disposal transaction, apart from continuing operating results of the Company in the consolidated statements of operations for all periods presented. If a discontinued operation is classified as held for sale, the assets and liabilities of the discontinued operation will be presented separately in the statement of financial position for all periods presented. Cash flows from discontinued operations are combined with continuing operations on the consolidated statements of cash flow. The Company adopted the new guidance on July 1, 2014.

Accounting and Reporting Pronouncements Not Yet Adopted

Goodwill

In January 2017, the FASB issued guidance that simplifies the subsequent measurement of goodwill. The new guidance eliminates Step 2 from the goodwill impairment test, and eliminates the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment. Therefore, an entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, and the same impairment assessment applies to all reporting units. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The amendments in this update should be adopted on a prospective basis for the annual or any interim goodwill impairment tests beginning after December 15, 2019.

Income Taxes

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

Statement of Cash Flows

In August 2016, the FASB issued guidance to reduce diversity in practice in how specific transactions are classified in the statement of cash flows. The update provides guidance on the following eight types of transactions: debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies, distributions received from equity method investments, beneficial interests in securitization transactions, separately identifiable cash flows and application of the predominance principle. The amendments in this update are effective for reporting periods beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted, provided that all of the amendments are adopted in the same period. The guidance requires application using a retrospective transition method. The Company is currently evaluating the impact that the pronouncement will have on the consolidated financial statements.

Share-Based Payments

In March 2016, the FASB issued guidance that simplifies how share-based payments are accounted for and presented in the financial statements. The Company is assessing the complete impact to the financial statements. Currently, the implementation of the new the accounting guidance effective January 1, 2017, is expected to impact the financial statements as follows:

- Actual forfeitures will be used in the calculations of stock-based compensation expense instead of estimated forfeitures. The prior period impact is not expected to be material and will be recorded in retained earnings using the modified retrospective method as of January 1, 2017.

DISCOVERY COMMUNICATIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- Windfall tax benefits or deficiencies will be recorded in income tax expense in the period in which they occur, whereas current guidance requires windfall benefits to be recorded in accumulated paid-in capital (“APIC”) with shortfalls offset against available windfall benefits. This change will be applied prospectively. The amounts recorded to APIC for net windfalls for the years ended December 31, 2016 , 2015 and 2014 are $7 million, $12 million and $30 million, respectively.
- Cash flows from windfall tax benefits will no longer factor into the calculation of the number of shares for diluted earnings per share. This change will be applied prospectively and is not expected to have a material impact on diluted earnings per share. Cash flows from windfall tax benefits reduced diluted earnings per share by zero, zero and $0.01 per share for the years ended December 31, 2016 , 2015 and 2014, respectively.
- Windfall tax benefits will be reclassified from financing activities to operating activities in the statement of cash flows presentation. This change will be applied retrospectively, resulting in the adjustment of prior period amounts. Cash flows from operating activities and cash used in financing activities will increase by $7 million, $12 million and $30 million for the years ended December 31, 2016 , 2015 and 2014, respectively. The table below summarizes the expected effects of this new guidance on the Company's consolidated financial statements (in millions).

	Year Ended December 31, 2016		Year Ended December 31, 2015		Year Ended December 31, 2014	
	As reported	As adjusted	As reported	As adjusted	As reported	As reported
Consolidated Statement of Cash Flows						
Cash flows from operating activities	$1,373	$1,380	$1,277	$1,289	$1,318	$1,348
Cash used in financing activities	$(1,177)	$(1,184)	$(902)	$(914)	$(734)	$(764)

Leases

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

Recognition and Measurement of Financial Instruments

In January 2016, the FASB issued guidance regarding the classification and measurement of financial instruments. The standard requires equity securities, including available-for-sale ("AFS") securities, to be measured at fair value with changes in the fair value recognized through net income, superseding the guidance permitting entities to record gains and losses on equity securities with readily determinable fair values in accumulated other comprehensive income. Investments accounted for under the equity method of accounting or that result in consolidation are not included within the scope of this update. The new standard will affect the Company's accounting for AFS securities for reporting periods beginning after December 15, 2017.

DISCOVERY COMMUNICATIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Balance Sheet Classification of Deferred Taxes

In November 2015, the FASB issued guidance to simplify the presentation of deferred income taxes, which removes the requirement to separate deferred tax liabilities and assets into current and noncurrent amounts and instead requires all such amounts be classified as noncurrent on the Company's consolidated balance sheets. As a result, each tax jurisdiction will now only have one net noncurrent deferred tax asset or liability. The new guidance does not change the existing requirement that prohibits offsetting deferred tax liabilities from one jurisdiction against deferred tax assets of another jurisdiction. The Company will retrospectively adopt the new guidance effective January 1, 2017. The following table summarizes the adjustments the Company expects to make to conform prior period classifications to the new guidance:

	December 31, 2016		December 31, 2015	
	As reported	As adjusted	As reported	As adjusted
Current deferred income tax assets	$97	$ —	$68	$ —
Noncurrent deferred income tax assets (included within other noncurrent assets)	9	20	18	25
Noncurrent deferred income tax liabilities	(553)	(467)	(556)	(495)
Total	$(447)	$ (447)	$(470)	$ (470)

Revenue from Contracts with Customers

In May 2014, the FASB issued an accounting pronouncement related to revenue recognition, which applies a single, comprehensive revenue recognition model for all contracts with customers. This standard, as amended, contains principles with respect to the measurement and timing of recognition of revenue. The Company will recognize revenue to reflect the transfer of goods or services to customers at an amount that it expects to be entitled to receive in exchange for those goods or services. The new standard is effective for annual reporting periods beginning after December 15, 2017. The Company will apply the new revenue standard beginning January 1, 2018, and will not early adopt. The Company has identified the advertising sales and distribution revenue streams as significant and is currently in the process of analyzing each of these in accordance with the new guidance to determine the impact on the consolidated financial statements. The guidance permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the cumulative catch-up transition method). When the Company has completed its evaluation, it will determine the method of transition that will be used in adopting the new standard.

Use of Estimates

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

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

Consolidation

The Company has ownership and other interests in various entities, including corporations, partnerships, and limited liability companies. For each such entity, the Company evaluates its ownership and other interests to determine whether it should consolidate the entity or account for its ownership interest as an investment. As part of its evaluation, the Company initially determines whether the entity is a VIE and, if so, whether it is the primary beneficiary of the VIE. An entity is generally a VIE if it meets any of the following criteria: (i) the entity has insufficient equity to finance its activities without additional subordinated financial support from other parties, (ii) the equity investors cannot make significant decisions about the entity’s operations, or (iii) the voting rights of some investors are not proportional to their obligations to absorb the expected losses of the entity or receive the expected returns of the entity and substantially all of the entity’s activities involve or are conducted on behalf of the investor with disproportionately few voting rights. The Company consolidates VIEs for which it is the primary beneficiary, regardless of its ownership or voting interests. The primary beneficiary is the party involved with the VIE that (i) has the power to direct the activities of the VIE that most significantly impact the VIE’s economic performance, and (ii) has the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. Upon inception of a variable interest or the occurrence of a reconsideration event, the Company makes judgments in determining whether entities in which it invests are VIEs. If so, the Company makes judgments to determine whether it is the primary beneficiary and is thus required to consolidate the entity.

If it is concluded that an entity is not a VIE, then the Company considers its proportional voting interests in the entity. The Company consolidates majority-owned subsidiaries in which a controlling financial interest is maintained. A controlling financial interest is determined by majority ownership and the absence of significant third-party participating rights.

Ownership interests in entities for which the Company has significant influence that are not consolidated under the Company’s consolidation policy are accounted for as equity method investments. Related party transactions between the Company and its equity method investees have not been eliminated. (See Note 19.)

Investments

The Company holds investments in equity method investees, cost method investees and available-for-sale securities. Investments in equity method investees are those for which the Company has the ability to exercise significant influence, but does not control and is not the primary beneficiary. Significant influence typically exists if the Company has a 20% to 50% ownership interest in the venture unless persuasive evidence to the contrary exists. Under this method of accounting, the Company typically records its proportionate share of the net earnings or losses of equity method investees and a corresponding increase or decrease to the investment balances. Cash payments to equity method investees such as additional investments, loans and advances and expenses incurred on behalf of investees, as well as payments from equity method investees such as dividends, distributions and repayments of loans and advances are recorded as adjustments to investment balances. For the Company's equity method investments in renewable energy limited liability companies where the capital structure of the equity investment results in different liquidation rights and priorities than what is reflected by the underlying percentage ownership interests, the Company's proportionate share of net earnings is accounted for using the Hypothetical Liquidation at Book Value ("HLBV") methodology available under the equity method of accounting. When applying HLBV, the Company determines the amount that would be received if the investment were to liquidate all of its assets and distribute the resulting cash to the investors based on contractually defined liquidation priorities. The change in the Company's claim on the investee's book value in accordance with GAAP at the beginning and the end of the reporting period, after adjusting for any contributions or distributions, is the Company's share of the earnings or losses for the period.The Company evaluates its equity method investments for impairment whenever events or changes in circumstances indicate that the carrying amounts of such investments may not be recoverable. (See "Asset Impairment Analysis" below.)

Cost method investments include ownership rights that either (i) do not meet the definition of in-substance common stock or (ii) do not provide the Company with control or significant influence and these investments do not have readily determinable fair values. Cost method investments are recorded at the lower of cost or fair value.

Investments in entities or other securities in which the Company has no control or significant influence and is not the primary beneficiary and have a readily determinable fair value are accounted for at fair value based on quoted market prices are classified as either trading securities or available-for-sale securities. For investments classified as trading securities, which include securities held in a separate trust in connection with the Company’s deferred compensation plan, unrealized and realized gains and losses related to the investment and corresponding liability are recorded in earnings as a component of other income (expense), net, on the consolidated statements of operations. For investments classified as AFS, which include investments in common stock, unrealized gains and losses are recorded, net of income taxes, in other comprehensive (loss) income until the security is sold or considered impaired. If declines in the value of AFS securities are determined to be other-than-temporary, a loss is recorded in earnings in the current period as a component of other income (expense), net on the consolidated statements of operations. (See "Asset Impairment

Analysis" below.) For purposes of computing realized gains and losses, the Company determines cost on a specific identification basis.

Foreign Currency

The reporting currency of the Company is the U.S. dollar. The functional currency of most of the Company’s international subsidiaries is the local currency. Assets and liabilities, including inter-company balances for which settlement is anticipated in the foreseeable future, denominated in foreign currencies are translated at exchange rates in effect at the balance sheet date. Foreign currency equity balances are translated at historical rates. Revenues and expenses denominated in foreign currencies are translated at average exchange rates for the respective periods. Foreign currency translation adjustments are recorded in accumulated other comprehensive income.

Transactions denominated in currencies other than subsidiaries' functional currencies are recorded based on exchange rates at the time such transactions arise. Changes in exchange rates with respect to amounts recorded in the consolidated balance sheets related to these items will result in unrealized foreign currency transaction gains and losses based upon period-end exchange rates. The Company also records realized foreign currency transaction gains and losses upon settlement of the transactions. Foreign currency transaction gains and losses are included in other income (expense), net, and totaled a gain of $75 million, a loss of $103 million, and a loss of $22 million for 2016, 2015 and 2014, respectively.

Cash flows from the Company's operations in foreign countries are generally translated at the weighted average rate for the applicable period in the consolidated statements of cash flows. The impacts of material transactions are recorded at the applicable spot rates as of the transaction date in the consolidated statements of operations and cash flows. The effects of exchange rates on cash balances held in foreign currencies are separately reported in the Company's consolidated statements of cash flows.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and highly liquid investments with original maturities of 90 days or less.

Receivables

Receivables include amounts billed and currently due from customers and are presented net of an estimate for uncollectible accounts. The Company evaluates outstanding receivables to assess collectability. In performing this evaluation, the Company analyzes market trends, economic conditions, the aging of receivables and customer specific risks. Using this information, the Company reserves an amount that it estimates may not be collected. The Company does not require collateral with respect to trade receivables.

Content Rights

Content rights principally consist of television series, specials, films and sporting events. Content aired on the Company's television networks is sourced from a wide range of third-party producers, wholly-owned and equity method investee production studios and sports associations. Content is classified either as produced, coproduced or licensed. The Company owns most or all of the rights to produced content. The Company collaborates with third parties to finance and develop coproduced content, and it retains significant rights to exploit the programs. Licensed content is comprised of films or series that have been previously produced by third parties and the Company retains limited airing rights over a contractual term. Prepaid licensed content includes advance payments for rights to air sporting events that will take place in the future and advance payments for acquired films and television series.

Costs of produced and coproduced content consist of development costs, acquired production costs, direct production costs, certain production overhead costs and participation costs. Costs incurred for produced and coproduced content are capitalized if the Company has previously generated revenues from similar content in established markets and the content will be used and revenues will be generated for a period of at least one year. The Company's coproduction arrangements generally provide for the sharing of production costs. The Company records its costs, but does not record the costs borne by the other party as the Company does not share any associated economics of exploitation.

Program licenses typically have fixed terms and require payments during the term of the license. The cost of licensed content is capitalized when the license period for the programs has commenced and the programs are available for air or the Company has paid for the programs. The Company pays in advance of delivery for television series, specials, films and sports rights. Payments made in advance of when the right to air the content is received are recognized as in-production produced, coproduced content or prepaid licensed content. Content distribution, advertising, marketing, general and administrative costs are expensed as incurred.

Content amortization expense for each period is recognized based on the revenue forecast model, which approximates the proportion that estimated distribution and advertising revenues for the current period represent in relation to the estimated remaining total lifetime revenues. The Company annually, or on an as needed basis, prepares analyses to support its content amortization expense by network and by region. Critical assumptions used in determining content amortization include: (i) the grouping of content by network, (ii) the application of a quantitative revenue forecast model based on the adequacy of a network's historical data, (iii) determining the appropriate historical periods to utilize and the relative weighting of those historical periods in the revenue forecast model, and (iv) assessing the accuracy of the Company's revenue forecasts. The Company then considers the appropriate application of the quantitative assessment given forecasted content use, expected content investment and market trends. Content use and future revenues may differ from estimates based on changes in expectations related to market acceptance, network affiliate fee rates, advertising demand, the number of cable and satellite television subscribers receiving the Company’s networks, and program usage. Accordingly, the Company continually reviews revenue estimates and planned usage and revises its assumptions if necessary. As part of the Company's annual assessment in determining the film forecast model, the Company compares the calculated amortization rates to those that have been utilized during the year. If the calculated rates do not deviate

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materially from the applied amortization rates, no adjustment is recorded for the current year amortization expense. The Company allocates the cost of multi-year sports programming arrangements over the contract period to each event or season based on the estimated relative value of each event or season.

The result of the revenue forecast model is either an accelerated method or a straight-line amortization method over the estimated useful lives of primarily three to four years for produced, coproduced and licensed content. Amortization of capitalized costs for produced and coproduced content begins when a program has been aired. Amortization of capitalized costs for licensed content commences when the license period begins and the program is available for use. Amortization of sports rights takes place when the content airs.

Capitalized content costs are stated at the lower of cost less accumulated amortization or net realizable value. The Company periodically evaluates the net realizable value of content by considering expected future revenue generation. Estimates of future revenues consider historical airing patterns and future plans for airing content, including any changes in strategy. Given the significant estimates and judgments involved, actual demand or market conditions may be less favorable than those projected, requiring a write-down to net realizable value. Development costs for programs that the Company has determined will not be produced, are fully expensed in the period the determination is made.

All produced and coproduced content is classified as long-term. The portion of the unamortized licensed content balance, including prepaid sports rights, that will be amortized within one year is classified as a current asset.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and impairments. The cost of property and equipment acquired under capital lease arrangements represents the lesser of the present value of the minimum lease payments or the fair value of the leased asset as of the inception of the lease. The Company leases fixed assets and software. Capitalized software costs are for internal use. Capitalization of software costs occurs during the application development stage. Software costs incurred during the preliminary project and post implementation stages are expensed as incurred. Repairs and maintenance expenditures that do not enhance the use or extend the life of property and equipment are expensed as incurred.

Depreciation for most property and equipment is recognized using the straight-line method over the estimated useful lives of the assets, which is 15 to 39 years for buildings, three to five years for broadcast equipment, two to five years for capitalized software costs and three to five years for office equipment, furniture, fixtures and other property and equipment. Assets acquired under capital lease arrangements and leasehold improvements are amortized using the straight-line method over the lesser of the estimated useful lives of the assets or the terms of the related leases, which is one to 15 years. Depreciation commences when property or equipment is ready for its intended use.

Asset Impairment Analysis

Goodwill and Indefinite-lived Intangible Assets

Goodwill is allocated to the Company's reporting units, which are its operating segments or one level below its operating segments. The Company evaluates goodwill and other indefinite-lived intangible assets for impairment annually as of November 30 and earlier if an event or other circumstance indicates that we may not recover the carrying value of the asset. If the Company believes that as a result of its qualitative assessment it is more likely than not that the fair value of a reporting unit or other indefinite-lived intangible asset is greater than its carrying amount, the quantitative impairment test is not required. The Company performs a quantitative impairment test every three years, irrespective of the outcome of the Company's qualitative assessment.

The quantitative goodwill impairment test is performed using a two-step process. The first step of the process is to compare the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not impaired and the second step of the quantitative impairment test is not necessary. If the carrying amount of a reporting unit exceeds its fair value, the second step of the quantitative goodwill impairment test is required to be performed to measure the amount of impairment loss, if any. The second step of the quantitative goodwill impairment test compares the implied fair value of the reporting unit’s goodwill with the carrying amount of that goodwill. The implied fair value of goodwill is determined in the same

manner as the amount of goodwill recognized in a business combination. In other words, the estimated fair value of the reporting unit's identifiable net assets excluding goodwill is compared to the fair value of the reporting unit as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess.
Following a qualitative assessment indicating that it is not more likely than not that the fair value of the indefinite lived intangible asset exceeds its carrying amount, impairment of other intangible assets not subject to amortization involves a

comparison of the estimated fair value of the intangible asset with its carrying value. If the carrying value of the intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. Determining fair value requires the exercise of judgment about appropriate discount rates, perpetual growth rates and the amount and timing of expected future cash flows.

Long-lived Assets

Long-lived assets such as amortizing trademarks, customer lists, other intangible assets, and property and equipment are not required to be tested for impairment annually. Instead, long-lived assets are tested for impairment whenever circumstances indicate that the carrying amount of the asset may not be recoverable, such as when the disposal of such assets is likely or there is an adverse change in the market involving the business employing the related assets. If an impairment analysis is required, the impairment test employed is based on whether the Company’s intent is to hold the asset for continued use or to hold the asset for sale. If the intent is to hold the asset for continued use, the impairment test first requires a comparison of undiscounted future cash flows to the carrying value of the asset. If the carrying value of the asset exceeds the undiscounted cash flows, the asset would not be deemed to be recoverable. Impairment would then be measured as the excess of the asset’s carrying value over its fair value. Fair value is typically determined by discounting the future cash flows associated with that asset. If the intent is to hold the asset for sale and certain other criteria are met, the impairment test involves comparing the asset’s carrying value to its fair value less costs to sell. To the extent the carrying value is greater than the asset’s fair value less costs to sell, an impairment loss is recognized in an amount equal to the difference. Significant judgments used for long-lived asset impairment assessments include identifying the appropriate asset groupings and primary assets within those groupings, determining whether events or circumstances indicate that the carrying amount of the asset may not be recoverable, determining the future cash flows for the assets involved and determining the proper discount rate to be applied in determining fair value.

Equity Method Investments, AFS Securities and Cost Method Investments

Equity method investments, AFS securities and cost method investments are reviewed for indicators of other-than-temporary impairment on a quarterly basis. Equity method investments, AFS securities and cost method investments are written down to fair value if there is evidence of a loss in value which is other-than-temporary. The Company may estimate the fair value of its equity method investments by considering recent investee equity transactions, discounted cash flow analysis, recent operating results, comparable public company operating cash flow multiples and in certain situations, balance sheet liquidation values. The Company may estimate the fair value of its AFS securities by considering the share price and other publicly available information about the the investment. If the fair value of the investment has dropped below the carrying amount, management considers several factors when determining whether an other-than-temporary decline has occurred, such as: the length of the time and the extent to which the estimated fair value or market value has been below the carrying value, the financial condition and the near-term prospects of the investee, the intent and ability of the Company to retain its investment in the investee for a period of time sufficient to allow for any anticipated recovery in market value and general market conditions. The estimation of fair value and whether an other-than-temporary impairment has occurred requires the application of significant judgment and future results may vary from current assumptions. (See Note 4.)

If declines in the value of these investments are determined to be other-than-temporary, a loss is recorded in earnings in the current period as a component of other income (expense), net on the consolidated statements of operations.

Derivative Instruments

The Company uses derivative financial instruments to modify its exposure to market risks from changes in foreign currency exchange rates, interest rates, and the fair value of investments classified as available-for-sale securities. At the inception of a derivative contract, the Company designates the derivative as one of four types based on the Company's intentions and expectations as to the likely effectiveness as a hedge. These four types are: (i) a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow hedge"), (ii) a hedge of net investments in foreign operations ("net investment hedge"), (iii) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value hedge"), or (iv) an instrument with no hedging designation. (See Note 10.)

Cash Flow Hedges

For those derivative instruments designated as cash flow hedges, gains or losses on the effective portion of derivative instruments are initially recorded in accumulated other comprehensive loss on the consolidated balance sheets and reclassified into the consolidated statements of operations in the same line item in which the hedged item is recognized and in the same period as the hedged item affects earnings. If it becomes probable that a forecasted transaction will not occur, any related gains and losses recorded in accumulated other comprehensive loss on the consolidated balance sheets are reclassified to other income (expense), net on the consolidated statements of operations in that period.

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Net Investment Hedges

For those derivative instruments designated as net investment hedges, the changes in the fair value of the derivatives instruments are recorded as cumulative translation adjustments, a component of accumulated other comprehensive loss on the consolidated balance sheets, and are only recognized in earnings upon the liquidation or sale of the hedged investment. If the notional amount of the instrument designated as the hedge of a net investment is greater than the portion of the net investment being hedged, hedge ineffectiveness, which is the gain or loss of the portion over hedged, is reclassified to other income (expense), net on the consolidated statements of operations in that period.

Fair Value Hedges

For those derivative instruments designated as fair value hedges, the changes in the fair value of the derivative instruments, including offsetting changes in fair value of the hedged items and amounts excluded from the assessment of effectiveness are recorded in other income (expense), net.

No Hedging Designation

The Company may also enter into derivative instruments that are not designated as hedges and do not qualify for hedge accounting. These contracts are intended to mitigate economic exposures of the Company. The changes in fair value of derivatives not designated as hedges and the ineffective portion of derivatives designated as hedging instruments are immediately recorded in other income (expense), net.

Financial Statement Presentation

The Company records all unsettled derivative contracts at their gross fair values on the consolidated balance sheets. (See Note 5.) The portion of the fair value that represents cash flows occurring within one year are classified as current, and the portion related to cash flows occurring beyond one year are classified as noncurrent.

The cash flows from the effective portion of derivative instruments used as hedges are classified in the consolidated statements of cash flows in the same section as the cash flows from the hedged item. For example, the cash paid or received to settle the effective portion of foreign exchange derivatives intended to hedge distribution revenue earned during the year ended December 31, 2016 is reported as an operating activity in the consolidated statements of cash flows consistent with the classification of cash received from customers. Also, the cash flows related to our interest rate contracts used to hedge the pricing for certain senior notes are reported as a financing activity in the consolidated statements of cash flows consistent with the cash proceeds from our debt offerings. The cash flows from the ineffective portion of derivative instruments used as hedges, periodic settlement of interest on cross-currency swaps, and derivative contracts not designated as hedges are reported as investing activities in the consolidated statements of cash flows.

Treasury Stock

When stock is acquired for purposes other than formal or constructive retirement, the purchase price of the acquired stock is recorded in a separate treasury stock account, which is separately reported as a reduction of equity.

When stock is retired or purchased for formal or constructive retirement, the purchase price is initially recorded as a reduction to the par value of the shares repurchased, with any excess purchase price over par value recorded as a reduction to additional paid-in capital related to the series of shares repurchased and any remainder excess purchase price recorded as a reduction to retained earnings. If the purchase price exceeds the amounts allocated to par value and additional paid-in capital related to the series of shares repurchased and retained earnings, the remainder is allocated to additional paid-in capital related to other series of shares.

Common Stock Repurchase Contracts

Under common stock repurchase contracts, the Company makes up front cash payments for the future settlement of the contract in either shares or in cash based on the Company's Series C common stock price at settlement in relation to the strike price of the contract. If the Company's Series C common stock price is below the strike price at expiry, the Company receives a predetermined number of its Series C common stock. If the Company's Series C common stock price is above the strike price at expiry, the Company can elect to settle the transaction in either cash or the equivalent value in shares of Series C common stock at the then current market price upon settlement, based on the notional value of the repurchase contract. The contracts represent a hybrid instrument consisting of a debt instrument and an embedded equity-linked derivative that does not require bifurcation because it is linked to the Company's own stock. The Company accounts for these contracts as equity transactions. Prepayments are recorded as a reduction in additional paid-in capital. If the contract settles in shares of Series C common stock, that amount will be reclassified to treasury stock. If the contract settles in cash, the cash receipt will be recorded as an increase to additional paid-in capital.

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Revenue Recognition
The Company generates revenues principally from (i) fees charged to distributors of its network content, which include cable, direct-to-home ("DTH") satellite, telecommunications and digital service providers, (ii) advertising sold on its television networks and websites, (iii) transactions for curriculum-based products and services, (iv) production studios content development and services, (v) affiliate and advertising sales representation services and (vi) the licensing of the Company's brands for consumer products.
Revenue is recognized when persuasive evidence of a sales arrangement exists, services are rendered or delivery occurs, the sales price is fixed or determinable and collectability is reasonably assured. Revenues do not include taxes collected from customers on behalf of taxing authorities such as sales tax and value-added tax. However, certain revenues include taxes that customers pay to taxing authorities on the Company’s behalf, such as foreign withholding tax. Revenue recognition for each source of revenue is also based on the following policies.
Distribution
Cable operators, DTH satellite and telecommunications service providers typically pay a per-subscriber fee for the right to distribute the Company’s programming under the terms of distribution contracts. The majority of the Company’s distribution fees are collected monthly throughout the year and distribution revenue is recognized over the term of the contracts based on contracted programming rates and reported subscriber levels. The amount of distribution fees due to the Company are reported by distributors based on actual subscriber levels. Such information is generally not received until after the close of the reporting period. In these cases, the Company estimates the number of subscribers receiving the Company’s programming. Historical adjustments to recorded estimates have not been material.
Distribution revenues are recognized net of incentives the Company provides to operators in exchange for carrying its networks. Incentives include cash payments to operators (“launch incentives”). Launch incentives are capitalized as assets upon launch of the Company’s network by the operator and are amortized on a straight-line basis as a reduction of revenue over the term of the contract, including free periods. In instances where the distribution agreement is extended prior to the expiration of the original term, the Company evaluates the economics of the extended term and, if it is determined that the launch asset continues to benefit the Company over the extended term, then the Company will adjust the amortization period of the remaining launch incentives accordingly. Other incentives are recognized as a reduction of revenue as incurred. Amortization of launch incentives was $13 million, $16 million and $11 million for 2016, 2015 and 2014, respectively.
Revenues associated with digital distribution arrangements are recognized when the Company transfers control of the content and the rights to distribute the content to the customer. If multiple programs are included in the arrangement, the Company allocates the fee to each program based on its relative fair value.
Advertising
Advertising revenues are principally generated from the sale of bundled commercial time on television networks and websites. The Company allocates the ad sales arrangement consideration to each item based on its relative fair value. Advertising revenues are recognized net of agency commissions in the period advertising spots are aired. A substantial portion of the advertising contracts in the U.S. guarantee the advertiser a minimum audience level that either the program in which their advertisements are aired or the advertisement will reach. Revenues are recognized for the actual audience level delivered. The Company provides the advertiser with additional advertising spots in future periods if the guaranteed audience level is not delivered. Revenues are deferred for any shortfall in the guaranteed audience level until the guaranteed audience level is delivered or the rights associated with the guarantee lapse. Audience guarantees are initially developed internally based on planned programming, historical audience levels, the success of pilot programs, and market trends. In the U.S., actual audience and delivery information is published by independent ratings services. In certain instances, the independent ratings information is not received until after the close of the reporting period. In these cases, reported advertising revenue and related deferred revenue are based upon the Company’s estimates of the audience level delivered. Historical adjustments to recorded estimates have not been

material.

Advertising revenues from online properties are recognized as impressions are delivered or the services are performed.

Other

Revenue for curriculum-based services is recognized ratably over the contract term as service is provided. Royalties from brand licensing arrangements are earned as products are sold by the licensee. Revenue from the production studios segment is recognized when the content is delivered and available for airing by the customer.

Deferred Revenue

Deferred revenue primarily consists of cash received for television advertising for which the advertising spots have not yet fully delivered the ratings guaranteed, product licensing arrangements, advanced billings to subscribers for access to the

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Company’s curriculum-based streaming services and advanced fees received related to the sublicensing of Olympic rights. The amounts classified as current are expected to be earned within the next year.

Equity-Based Compensation Expense

The Company has incentive plans under which performance-based restricted stock units (“PRSUs”), service-based restricted stock units (“RSUs”) stock options, stock appreciation rights (“SARs”) and unit awards are issued. Vesting for certain PRSUs is subject to satisfying objective operating performance conditions, while vesting for other PRSUs is based on the achievement of a combination of objective and subjective operating performance conditions. Compensation expense for PRSUs that vest based on achieving objective operating performance conditions is measured based on the fair value of the Company’s Series A and C common stock on the date of grant less estimated forfeitures. Compensation expense for PRSUs that vest based on achieving subjective operating performance conditions or in situations where the executive is able to withhold taxes in excess of the minimum statutory requirement, is remeasured at the fair value of the Company’s Series A and Series C common stock, as applicable, less estimated forfeitures each reporting period until the date of conversion. Compensation expense for all PRSUs is recognized ratably, following a graded vesting pattern during the vesting period only when it is probable that the operating performance conditions will be achieved. The Company records a cumulative adjustment to compensation expense for PRSUs if there is a change in the determination of whether or not it is probable the operating performance conditions will be achieved.

The Company measures the cost of employee services received in exchange for RSUs based on the fair value of the Company’s Series A common stock on the date of grant less estimated forfeitures. Compensation expense for RSUs is recognized ratably during the vesting period.

Compensation expense for stock options is attributed to expense over the vesting period based on the fair value on the date of grant less estimated forfeitures. Compensation expense for stock options is recognized ratably during the vesting period.

The Company measures the cost of employee services received in exchange for SARs and unit awards based on the fair value of the award less estimated forfeitures. Because certain SARs and all unit awards are cash-settled, the Company remeasures the fair value of these awards each reporting period until settlement. Compensation expense, including changes in fair value, for SARs and unit awards is recognized during the vesting period in proportion to the requisite service that has been rendered as of the reporting date. For awards with graded vesting, the Company measures fair value and records compensation expense separately for each vesting tranche.

The fair values of SARs, unit awards and stock options are estimated using the Black-Scholes option-pricing model. Because the Black-Scholes option-pricing model requires the use of subjective assumptions, changes in these assumptions can materially affect the fair value of awards. For SARs and unit awards the expected term is the period from the grant date to the end of the contractual term of the award unless the terms of the award allow for cash-settlement automatically on the date the awards vest, in which case the vesting date is used. For stock options the simplified method is utilized to calculate the expected term, since the Company does not have sufficient historical exercise data to provide a reasonable basis upon which to estimate the expected term. The simplified method considers the period from the date of grant through the mid-point between the vesting date and the end of the contractual term of the award. Expected volatility is based on a combination of implied volatilities from traded options on the Company’s common stock and historical realized volatility of the Company’s common stock. The dividend yield is assumed to be zero because the Company has no history of paying cash dividends and no present intention to pay dividends. The risk-free interest rate is based on U.S. Treasury zero-coupon issues with a remaining term equal to the expected term of the award.

When recording compensation cost for equity-based awards, the Company is required to estimate the number of awards granted that are expected to be forfeited. In estimating forfeitures, the Company considers historical and expected forfeiture rates and anticipated events. On an ongoing basis, the Company adjusts compensation expense based on actual forfeitures and revises the forfeiture rate as necessary.

The Employee Stock Purchase Plan (the “DESPP”) enables eligible employees to purchase shares of the Company’s common stock through payroll deductions or other permitted means. The Company recognizes the fair value of the discount associated with shares purchased under the plan as equity-based compensation expense.

Equity-based compensation expense is recorded as a component of selling, general and administrative expense. The Company classifies the intrinsic value of SARs and unit awards that are vested or will become vested within one year as a current liability.

Excess tax benefits realized from the exercise of stock options and vested RSUs, PRSUs and the DESPP are reported as cash inflows from financing activities rather than as a reduction of taxes paid in cash flows from operating activities on the consolidated statements of cash flows.

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Advertising Costs

Advertising costs are expensed as promotional services are delivered in selling, general and administrative expenses. Advertising costs paid to third parties totaled $166 million, $148 million and $145 million for 2016, 2015 and 2014, respectively.

Income Taxes

Income taxes are recorded using the asset and liability method of accounting for income taxes. Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred taxes are measured using rates the Company expects to apply to taxable income in years in which those temporary differences are expected to reverse. A valuation allowance is provided for deferred tax assets if it is more likely than not such assets will be unrealized. The Company also engages in transactions that make the Company eligible for federal investment tax credits. The Company accounts for federal investment tax credits under the flow-through method, under which the tax benefit generated from an investment tax credit is recorded in the period the credit is generated.

From time to time, the Company engages in transactions in which the tax consequences may be uncertain. Significant judgment is required in assessing and estimating the tax consequences of these transactions. The Company prepares and files tax returns based on its interpretation of tax laws and regulations. In the normal course of business, the Company's tax returns are subject to examination by various taxing authorities. Such examinations may result in future tax and interest assessments by these taxing authorities.

In determining the Company's tax provision for financial reporting purposes, the Company establishes a reserve for uncertain tax positions unless the Company determines that such positions are more likely than not to be sustained upon examination based on their technical merits, including the resolution of any appeals or litigations processes. There is considerable judgment involved in determining whether positions taken on the Company's tax returns are more likely than not to be sustained. The Company adjusts its tax reserve estimates periodically because of ongoing examinations by, and settlements with, various taxing authorities, as well as changes in tax laws, regulations and interpretations.

Concentrations Risk

Customers

The Company has long-term contracts with distributors around the world. For the U.S. Networks segment, more than 90% of distribution revenue comes from the 10 largest distributors. For the International Networks segment, approximately 46% of distribution revenue comes from the 10 largest distributors. Agreements in place with the 10 largest cable and satellite operators with the U.S. Networks and International Networks expire at various times from 2017 through 2021. Although the Company seeks to renew its agreements with its distributors prior to expiration of a contract, a delay in securing a renewal that results in a service disruption, a failure to secure a renewal or a renewal on less favorable terms may have a material adverse effect on the Company’s financial condition and results of operations. Not only could the Company experience a reduction in distribution revenue, but it could also experience a reduction in advertising revenue, as viewership is impacted by affiliate subscriber levels.

No individual customer accounted for more than 10% of total consolidated revenues for 2016, 2015 and 2014. As of December 31, 2016 and 2015, the Company’s trade receivables do not represent a significant concentration of credit risk as the customers and markets in which the Company operates are varied and dispersed across many geographic areas.

Financial Institutions

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

Lender Counterparties

There is a risk that the counterparties associated with the Company's revolving credit facility will not be available to fund as obligated under the terms of the facility and that the Company may, at the time of such unavailability to fund, have limited or no access to the commercial paper market. If funding under the revolving credit facility is unavailable, the Company may have to acquire a replacement credit facility from different counterparties at a higher cost or may be unable to find a suitable replacement. Typically, the Company seeks to manage such risks from its revolving credit facility by contracting with experienced large financial institutions and monitoring the credit quality of its lenders. As of December 31, 2016, the Company did not anticipate nonperformance by any of its counterparties.

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Counterparty Credit Risk

The Company is exposed to the risk that the counterparties to outstanding derivative financial instruments will default on their obligations. The Company manages these credit risks through the evaluation and monitoring of the creditworthiness of, and concentration of risk with, the respective counterparties. In this regard, credit risk associated with outstanding derivative financial instruments is spread across a relatively broad counterparty base of banks and financial institutions. In connection with the Company's hedge of certain investments classified as available-for-sale securities, the Company has pledged shares as collateral to the derivative counterparty. (See Note 5.) The Company also has a limited number of arrangements where collateral is required to be posted in the instance that certain fair value thresholds are exceeded. As of December 31, 2016, no collateral has been posted by either party under these arrangements. As of December 31, 2016, our exposure to counterparty credit risk included derivative assets with an aggregate fair value of $92 million. (See Note 10.)

NOTE 3. ACQUISITIONS AND DISPOSITIONS

Acquisitions

Eurosport International and France

On December 21, 2012, the Company acquired a 20% equity method investment in Eurosport, which includes both Eurosport International and Eurosport France. On May 30, 2014, the Company acquired an additional 31% equity in Eurosport International to obtain a controlling interest in Eurosport International for €259 million ($351 million). On March 31, 2015 the Company acquired an additional 31% interest in Eurosport France for €36 million ($38 million). These transactions gave the Company a 51% controlling stake in Eurosport. The Company recognized gains of $2 million and $29 million for the years ended December 31, 2015 and 2014, respectively, to account for the difference between the carrying value and the fair value of the previously held 20% equity method investments in Eurosport France and Eurosport International. The gains were included in other income (expense), net in the Company's consolidated statements of operations. (See Note 18.) On October 1, 2015, TF1 put its remaining 49% interest in Eurosport to the Company for €491 million ($548 million). (See Note 11.)

Eurosport is a leading pan-European sports media platform. The flagship Eurosport network focuses on regionally popular sports, such as tennis, skiing, cycling and motor sports. Eurosport’s brands and platforms also include Eurosport HD (high definition simulcast), Eurosport 2, Eurosport 2 HD and Eurosportnews. The acquisitions are intended to enhance the Company's pay-TV offerings in Europe and increase the growth of Eurosport.

The Company used a discounted cash flow ("DCF") analysis, which represent Level 3 fair value measurements, to assess certain components of the Eurosport purchase price allocations. The fair value of the assets acquired, liabilities assumed, noncontrolling interests recognized and the remeasurement gains recorded on the previously held equity interests is presented in the table below (in millions).

	Eurosport France	Eurosport International
	March 31, 2015	May 30, 2014
Goodwill	$ 69	$ 785
Intangible assets	40	467
Other assets acquired	25	169
Cash	35	47
Removal of TF1 put right	2	27
Currency translation adjustment	(6)	7
Remeasurement gain on previously held equity interest	(2)	(29)
Liabilities assumed	(30)	(169)
Deferred tax liabilities	(14)	(164)

Redeemable noncontrolling interest (Note 11)	(60)	(558)
Carrying value of previously held equity interest	(21)	(231)
Net assets acquired	$ 38	$ 351

The goodwill reflects the workforce and synergies expected from increased pan-European market penetration as the operations of Eurosport and the Company are combined. The goodwill recorded as part of this acquisition is included in the International Networks reportable segment and is not amortizable for tax purposes. Intangible assets primarily consist of

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distribution and advertising customer relationships, advertiser backlog and trademarks with a weighted average estimated useful life of 10 years.

Discovery Family (formerly known as the Hub Network)

On September 23, 2014, the Company acquired an additional 10% ownership interest in Discovery Family from Hasbro, Inc. ("Hasbro") for $64 million and obtained financial operating control of the joint venture. Discovery Family is a pay-TV network in the U.S. that provides entertainment for children and families. The purchase increased the Company's ownership interest from 50% to 60%. As a result of acquiring a controlling interest, the Company changed its accounting for Discovery Family from an equity method investment to a consolidated subsidiary. There was no gain or loss recorded at the time of acquisition as the fair value of the Company's previously held equity interest in Discovery Family was equal to the carrying amount as of the acquisition date. The acquisition of Discovery Family supports the Company's strategic priority of broadening the scope of the network to increase viewership. The Company rebranded the network to Discovery Family on October 13, 2014.

The Company used DCF analyses, which represent Level 3 fair value measurements, to assess certain components of its purchase price allocation. The fair value of the assets acquired, liabilities assumed and noncontrolling interest recognized is presented in the table below (in millions).

	September 23, 2014
Goodwill	$ 310
Intangible assets	301
Other assets acquired	96
Cash	33
Liabilities assumed	(125)
Redeemable noncontrolling interest (Note 11)	(238)
Carrying value of previously held equity interest	(313)
Net assets acquired	$ 64

The goodwill reflects the workforce and synergies expected from combining the operations of Discovery Family with the Company's existing U.S. Networks. The goodwill recorded as part of this acquisition is included in the U.S. Networks reportable segment and is not amortizable for tax purposes. Intangible assets primarily consist of distribution customer relationships with an estimated useful life of 25 years, based on three renewals.

Other

In 2015, the Company acquired several other unrelated businesses for total cash and contingent consideration of $91 million, net of cash acquired. Total consideration, net of cash acquired, included contingent consideration of $13 million as of December 31, 2015, $2 million of which was paid during 2016. The Company recorded $54 million and $43 million of goodwill and intangible assets, respectively, in connection with these acquisitions. The acquisitions included FTA networks in Italy and Turkey, cable networks in Denmark and a pay-TV sports channel in Asia. The goodwill reflects the synergies and regional market penetration from combining the operations of these acquisitions with the Company's operations.

In 2014, the Company acquired several other unrelated businesses for total consideration of $40 million, net of cash acquired. Total consideration, net of cash acquired included $2 million of contingent consideration. The Company recorded $37 million and $10 million of goodwill and intangible assets, respectively, in connection with these acquisitions. The acquisitions included a factual entertainment production company in the U.K. and cable networks in New Zealand. The goodwill reflects the synergies and market expansion from combining the operations of these acquisitions with the Company's operations.

Pro Forma Financial Information

The following table presents the unaudited pro forma results of the Company as though all of the business combinations from 2014 had been made on January 1, 2013. The Company had no 2016 business combinations, and the Company's 2015 business combinations are not material individually or in the aggregate and have not been included in the pro forma table. These pro forma results do not necessarily represent what would have occurred if all the business combinations had taken place on January 1, 2014, nor do they represent the results that may occur in the future. This pro forma financial information includes the historical financial statement amounts of Discovery and its business combinations for the full year with the following adjustments: 1) the Company converted historical financial statements to GAAP, 2) the Company applied its accounting policies, 3) the Company adjusted for amortization expense assuming the fair value adjustments to intangible assets had been applied beginning

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January 1, 2014, 4) the Company removed content impairments resulting from the consolidation and subsequent rebranding of Discovery Family from 2014, 5) the Company removed the gains recognized upon the consolidation of previously held equity interests in 2014, 6) the Company removed losses on derivative instruments and other market value adjustments recognized in connection with business combinations and previously held equity interests, 7) the Company adjusted for transaction costs of $4 million incurred in 2014, and 8) the Company included adjustments for income taxes associated with these pro forma adjustments.

The pro forma adjustments were based on available information and upon assumptions that the Company believes are reasonable to reflect the impact of these acquisitions on the Company's historical financial information on a supplemental pro forma basis (in millions).

	Pro Forma Year Ended December 31, 2014
Revenues	$ 6,559
Net income	$ 1,168

Impact of Business Combinations

The operations of each of the business combinations discussed above were included in the consolidated financial statements as of each of their respective acquisition dates. The following table presents their revenue and earnings as reported within the consolidated financial statements for the year ended December 31, 2014 (in millions).

	Year Ended December 31, 2014
Revenues:	
Distribution	$ 220
Advertising	84
Other	72
Total revenues	376
Net income	$ 9

Dispositions

Seeker and SourceFed

On December 2, 2016, the Company recorded a pre-tax gain of $50 million upon deconsolidation of its digital network Seeker and production studio SourceFed, following its contribution of the businesses and $100 million in cash for the formation of a new joint venture, Group Nine Media, Inc. ("Group Nine Media"). Group Nine Media includes Thrillist Media Group, NowThis Media and TheDodo.com. As a result of the transaction, Discovery obtained a 39% ownership interest in the preferred stock of Group Nine Media, which is accounted for under the cost method of accounting. (See Note 4.) The gain on contribution of the digital networks business included the write off of $32 million in net assets, including $22 million of goodwill allocated to the transaction based on the relative fair values of the digital networks business disposed and the portion of the U.S. Networks reporting unit that was retained.

Russia

On October 7, 2015, Discovery recorded a loss of $5 million upon the deconsolidation of its Russian business following its contribution to a joint venture (the “New Russian Business”) with a Russian media company, National

Media Group ("NMG"). The New Russian Business was established to comply with changes in Russian legislation that limit foreign ownership of media companies in Russia. No cash consideration was exchanged in the transaction. NMG contributed a FTA license which enables advertising for the New Russian Business. As part of the transaction, Discovery obtained a 20% ownership interest in the New Russian Business, which is accounted for under the equity method of accounting. The loss on contribution of the Russian business included $15 million of goodwill allocated to the transaction based on the relative fair values of the Russian business disposed of and the portion of the reporting unit that was retained. Although Discovery no longer consolidates the Russian business, Discovery earns revenue by providing content and brands to the New Russian Business under long-term licensing arrangements (Note 19).

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The Russian business was included in the International Networks reportable segment; the licensing arrangements with the New Russian Business are reported as distribution revenue in the International Networks reportable segment. (See Note 21.)

Radio

On June 30, 2015, Discovery sold its 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. The cumulative gain on the disposal of $1 million included $26 million of goodwill allocated to the transaction based on the relative fair values of the radio business disposed of and the portion of the reporting unit that was retained. The Company recorded a $12 million loss including estimated contingent consideration as disclosed for the year ended December 31, 2015. Based on the final resolution and receipt of contingent consideration payable, Discovery recorded a pre-tax gain of $13 million for the year ended December 31, 2016.

The Company determined that the disposal did not meet the definition of a discontinued operation because it did not represent a strategic shift that had a significant impact on the Company's operations and consolidated financial results. The income before income taxes impact of the Company's radio businesses was zero and a loss of $5 million and for the years ended December 31, 2015 and 2014, respectively. The Company's radio businesses were included in the International Networks reportable segment.

HowStuffWorks, LLC

On May 30, 2014, Discovery sold HowStuffWorks, LLC ("HSW"), a commercial website which uses various media to explain complex concepts, terminology and mechanisms, to Blucora, Inc. (“Blucora”). Blucora paid Discovery $45 million, and Discovery recorded a pretax gain of $31 million upon completion of the sale. HSW was included in the U.S. Networks reportable segment. The Company determined that the disposal did not meet the definition of a discontinued operation due to the migration of sales to its remaining digital businesses.

NOTE 4. INVESTMENTS

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

		December 31,	
Category	Balance Sheet Location	2016	2015
Trading securities:			
Mutual funds	Prepaid expenses and other current assets	$ 160	$ 149
Equity method investments	Equity method investments, including note receivable	557	567
Available-for-sale securities:			
Common stock	Other noncurrent assets	64	81
Common stock - pledged	Other noncurrent assets	64	81
Cost method investments	Other noncurrent assets	245	43
Total investments		$ 1,090	$ 921

Trading Securities

Trading securities include investments in mutual funds held in a separate trust which are owned as part of the Company’s supplemental retirement plan. (See Note 14.)

Equity Method Investments

In the normal course of business, the Company makes investments that support its underlying business strategy and enable it to enter new markets and develop programming. All equity method investees are privately owned. The carrying values of the Company’s equity method investments are consistent with its ownership in the underlying net assets of the investees, except for Oprah Winfrey Network ("OWN"), because the Company has recorded losses in excess of its ownership interest, and certain investments in renewable energy projects accounted for using the HLBV methodology under the equity method of accounting. Certain of the Company's equity method investments are VIEs, for which the Company is not the primary beneficiary. As of December 31, 2016, the Company’s maximum estimated exposure for all its VIEs including the investment carrying values, unfunded contractual commitments, and guarantees made on behalf of VIEs was approximately $709 million. The Company's maximum estimated exposure excludes the non-contractual future funding of VIEs. The aggregate carrying values of these VIE equity method investments were $426 million and $423 million as of December 31, 2016 and 2015, respectively. The Company recognized its portion of net earnings generated by VIEs of $7 million, $30 million and $45 million for 2016, 2015 and 2014, respectively, in income from equity investees, net on the consolidated statements of operations.

OWN

OWN is a pay-TV network and website that provides adult lifestyle content, which is focused on self-discovery, self-improvement and entertainment. Since the initial equity was not sufficient to fund OWN's activities without additional subordinated financial support in the form of a note receivable held by the Company, OWN is a VIE. While the Company and Harpo, Inc. ("Harpo") are partners who share equally in voting control, power is not shared because Harpo holds operational rights related to programming and marketing, as well as selection and retention of key management, that significantly impact OWN’s economic performance. Accordingly, the Company has determined that it is not the primary beneficiary of OWN and accounts for its investment in OWN using the equity method. However, the Company provides OWN content licenses and services, such as distribution, sales and administrative support, for a fee and has provided OWN funding. (See Note 19.)

The carrying value of the Company's investment in OWN of $320 million and $373 million as of December 31, 2016 and December 31, 2015, respectively, includes the Company's note receivable and accumulated investment losses. The Company's combined advances to and note receivable from OWN, including accrued interest, were $311 million and $384 million as of December 31, 2016 and December 31, 2015, respectively. On April 30, 2015, Oprah Winfrey agreed to extend her exclusivity agreement with OWN and the note receivable agreement was modified to reduce its interest rate, compounded annually, from 7.5% to 5.0%, retroactive to January 1, 2014. During 2016, the Company received net repayments of $87 million from OWN and accrued interest on the note receivable of $14 million. During 2015, the Company received net repayments of $82 million from OWN and accrued interest on the note receivable of $23 million.

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

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

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

Renewable Energy Investments

During December 2016, the Company invested $63 million in limited liability companies that sponsor renewable energy projects related to solar energy. The Company expects this investment to result in tax benefits received, which reduce the Company's tax liability, and cash flows from the operation of the investee. These investments are considered VIEs of the Company. The Company does not consolidate the investments as the Company does not have the power to direct the activities that will most significantly impact their economic performance such as the investee's ability to obtain sufficient customers. Once a stipulated return on investment is garnered by the Company, the investment allocations to the Company are significantly reduced. Accordingly, the Company accounts for these investments under the equity method of accounting and applies the HLBV method for recognizing the Company's proportionate share of the investments' net earnings or losses. (See Note 2.)

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During 2016, the Company recognized $24 million of losses on these investments as part of (loss) income from equity investees, net in the consolidated statements of operations. The Company received $26 million of benefit from the entities' investment tax credits and passive losses recorded, which are recorded as a component of income tax expense. As of December 31, 2016, the Company's carrying value of renewable energy investments was $39 million and the Company has made $238 million of future funding commitments for these investments.

Other Equity Method Investments

The Company acquired other equity method investments and made additional contributions to existing equity method investments totaling $91 million during 2016. At December 31, 2016, the Company's other equity method investments included Mega TV, a FTA channel in Chile, a digital publisher in Latin America, the New Russian Business, All3Media and certain joint ventures in Canada.

On March 31, 2015 and May 30, 2014, the Company acquired from TF1 a controlling interest in each of its Eurosport France and Eurosport International equity method investments, respectively, by increasing its ownership stake from 20% to 51%. As a result, the Company changed its accounting for Eurosport France and Eurosport International from equity method investments to consolidated subsidiaries as of their respective acquisition dates. (See Note 3.) On October 1, 2015, the Company acquired the remaining 49% of Eurosport upon TF1's exercise of its right to put. (See Note 11.)

Available-for-Sale Securities ("AFS")

On November 12, 2015, the Company acquired 5 million shares, or 3.4%, of Lions Gate Entertainment Corp. ("Lionsgate"), an entertainment company, for $195 million. Lionsgate operates in the motion picture production and distribution, television programming and syndication, home entertainment, family entertainment and digital distribution businesses. As the shares have a readily determinable fair value and the Company has the intent to retain the investment, the shares are classified as AFS securities.

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

	December 31,	
	2016	2015
Cost	$195	$195
Change in value of the hedged AFS recognized in other income (expense), net	(19)	(2)
Other-than-temporary impairment of AFS securities	(62)	—
Unhedged AFS - other comprehensive (loss) income	14	(31)
Carrying value	$128	$162

The Company hedged 50% of the shares with an equity collar (the “Lionsgate Collar”) and pledged those shares as collateral to the derivative counter party. In the application of hedge accounting, when the share price of Lionsgate is within the boundaries of the collar and the hedge has no intrinsic value, the Company records the gains or losses on the Lionsgate AFS securities as a component of other comprehensive (loss) income. When the share price of the Lionsgate AFS is outside the boundaries of the collar and the hedge has intrinsic value, the Company records a gain or loss for the change in the fair value of the hedged portion of Lionsgate shares that correspond to the change in intrinsic value of the hedge as a component of other income (expense), net. (See Note 10.)

As of September 30, 2016, the Company determined that the decline in value of AFS securities related to its investment in Lionsgate was other-than-temporary in nature and, as such, the cost basis was adjusted to fair value. The impairment determination was based on the sustained decline in the stock price of Lionsgate in relation to the purchase price and the prolonged length of time the fair value of the investment has been less than the carrying value. Based on the other-than-temporary impairment determination, unrealized pre-tax losses of $62 million previously recorded as a component of other comprehensive (loss) income were recognized as an impairment charge that is included as a component of other income (expense), net for the year ended December 31, 2016. Since September 30, 2016, the increase in stock price has been recorded as a component of other comprehensive (loss) income.

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Cost Method Investments

The Company's cost method investments as of December 31, 2016 primarily include its 39% minority interest in Group Nine Media (see Note 3), which is valued at $182 million as of December 31, 2016. Although Discovery has significant influence through its voting rights in the preferred stock of Group Nine Media, the Company will apply the cost method for its ownership interest, which does not meet the definition of in-substance common stock. The Company also has investments in an educational website and an electric car racing series. The Company increased its cost method investments by $18 million for the year ended December 31, 2016, primarily from additional investments in the electric car racing series.

NOTE 5. FAIR VALUE MEASUREMENTS

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

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

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

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

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

		December 31, 2016			
Category	Balance Sheet Location	Level 1	Level 2	Level 3	Total
Assets:					
Trading securities - mutual funds	Prepaid expenses and other current assets	$160	$ —	$ —	$160
Available-for-sale securities:					
Common stock	Other noncurrent assets	64	—	—	64
Common stock - pledged	Other noncurrent assets	64	—	—	64
Derivatives:					
Cash flow hedges:					
Foreign exchange	Prepaid expenses and other current assets	—	31	—	31
Net investment hedges:					
Cross-currency swaps	Other noncurrent assets	—	35	—	35
Fair value hedges:					
Equity (Lionsgate Collar)	Other noncurrent assets	—	25	—	25
No hedging designation:					
Cross-currency swaps	Other noncurrent assets	—	1	—	1
Total		$288	$ 92	$ —	$380
Liabilities:					
Deferred compensation plan	Accrued liabilities	$160	$ —	$ —	$160
Derivatives:					
Cash flow hedges:					
Foreign exchange	Accrued liabilities	—	18	—	18
Net investment hedges:					
Cross-currency swaps	Accrued liabilities	—	3	—	3
Cross-currency swaps	Other noncurrent liabilities	—	31	—	31
Total		$160	$ 52	$ —	$212

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

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

AFS securities represent equity investments with readily determinable fair values. The fair value of Level 1 AFS securities was determined by reference to the quoted market price per unit in active markets multiplied by the number of units held without consideration of transaction costs. (See Note 4).

Derivative financial instruments are comprised of foreign exchange, interest rate and equity contracts. See Note 10 for the determination of the fair value of the Level 2 derivatives.

In addition to the financial instruments listed in the tables above, the Company has other financial instruments, including cash deposits, accounts receivable, accounts payable, commercial paper, borrowings under the revolving credit facility, capital leases and senior notes. The carrying values for such financial instruments, other than senior notes, each approximated their fair values as of December 31, 2016 and December 31, 2015. The estimated fair value of the Company’s outstanding senior notes using quoted prices from over the counter markets, considered Level 2 inputs, was $7.4 billion and $6.6 billion as of December 31, 2016 and 2015, respectively.

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NOTE 6. CONTENT RIGHTS

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

	December 31,	
	2016	2015
Produced content rights:		
Completed	$3,920	$3,624
In-production	420	376
Coproduced content rights:		
Completed	632	691
In-production	57	62
Licensed content rights:		
Acquired	1,090	1,078
Prepaid	129	96
Content rights, at cost	6,248	5,927
Accumulated amortization	(3,849)	(3,584)
Total content rights, net	2,399	2,343
Current portion	(310)	(313)
Noncurrent portion	$2,089	$2,030

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

	For the year ended December 31,		
	2016	2015	2014
Content amortization	$1,701	$1,628	$1,462
Other production charges	272	231	155
Content impairments [a]	72	81	95
Total content expense	$2,045	$1,940	$1,712

[a] Content impairments are generally recorded as a component of costs of revenue. However during the years ended December 31, 2016, 2015 and 2014, content impairments of $7 million, $21 million, and $55 million, respectively, were reflected as a component of restructuring and other charges. These charges resulted from the cancellation of certain series due to legal circumstances pertaining to the associated talent and from the consolidation and subsequent rebranding of The Hub Network to Discovery Family in 2014. (See Note 15.)

As of December 31, 2016, the Company estimates that approximately 96% of unamortized costs of content rights, excluding content in-production and prepaid licenses, will be amortized within the next three years. As of December 31, 2016, the Company will amortize $958 million of the above unamortized content rights, excluding content in-production and prepaid licenses, during the next twelve months.

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NOTE 7. PROPERTY AND EQUIPMENT
Property and equipment consisted of the following (in millions).

	December 31,	
	2016	2015
Land, buildings and leasehold improvements	$327	$338
Broadcast equipment	607	603
Capitalized software costs	347	311
Office equipment, furniture, fixtures and other	333	309
Property and equipment, at cost	1,614	1,561
Accumulated depreciation	(1,132)	(1,073)
Property and equipment, net	$482	$488

Property and equipment includes assets acquired under capital lease arrangements, primarily satellite transponders classified as broadcast equipment, with gross carrying values of $284 million and $271 million as of December 31, 2016 and 2015, respectively. The related accumulated amortization for capital lease assets was $155 million and $142 million as of December 31, 2016 and 2015, respectively.
The net book value of capitalized software costs was $96 million and $90 million as of December 31, 2016 and 2015, respectively.
Depreciation expense for property and equipment, including amortization of capitalized software costs and capital lease assets, totaled $139 million, $138 million and $131 million for 2016, 2015 and 2014, respectively.
In addition to the capitalized property and equipment included in the above table, the Company rents certain facilities and equipment under operating lease arrangements. Rental expense for operating leases totaled $122 million, $134 million and $143 million for 2016, 2015 and 2014, respectively.
NOTE 8. GOODWILL AND INTANGIBLE ASSETS
Goodwill
Changes in the carrying value of goodwill were as follows (in millions).

	U.S. Networks	International Networks	Education and Other	Total
December 31, 2014	$ 5,287	$ 2,869	$ 80	$ 8,236
Acquisitions (Note 3)	—	123	—	123
Dispositions (Note 3)	—	(41)	—	(41)
Foreign currency translation	—	(151)	(3)	(154)
December 31, 2015	5,287	2,800	77	8,164
Dispositions (Note 3)	(22)	—	—	(22)
Foreign currency translation	—	(92)	(10)	(102)
December 31, 2016	$ 5,265	$ 2,708	$ 67	$ 8,040

The carrying amount of goodwill at the U.S. Networks segment included accumulated impairments of $20 million as of December 31, 2016 and 2015, respectively.

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Intangible Assets

Finite-lived intangible assets consisted of the following (in millions, except years).

	Weighted Average Amortization Period (Years)	December 31, 2016			December 31, 2015		
		Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Intangible assets subject to amortization:							
Trademarks	10	$412	$ (165)	$247	$433	$ (130)	$303
Customer relationships	17	1,632	(594)	1,038	1,664	(481)	1,183
Other	14	97	(34)	63	105	(25)	80
Total		$2,141	$ (793)	$1,348	$2,202	$ (636)	$1,566

Indefinite-lived intangible assets not subject to amortization (in millions):

	December 31,	
	2016	2015
Intangible assets not subject to amortization:		
Trademarks	$ 164	$ 164

Straight-line amortization expense for finite-lived intangible assets reflects the pattern in which the assets' economic benefits are consumed over their estimated useful lives. Amortization expense related to finite-lived intangible assets was $183 million, $192 million and $198 million for 2016, 2015 and 2014, respectively.

Amortization expense relating to intangible assets subject to amortization for each of the next five years and thereafter is estimated to be as follows (in millions).

	2017	2018	2019	2020	2021	Thereafter
Amortization expense	$165	$155	$151	$147	$125	$ 605

The amount and timing of the estimated expenses in the above table may vary due to future acquisitions, dispositions, impairments, changes in estimated useful lives or changes in foreign currency exchange rates.

Impairment Analysis

As of November 30, 2016, the Company performed a quantitative goodwill impairment assessment for all reporting units. Due to the period of time elapsed since the last quantitative impairment test in 2013, the Company elected to proceed to the first step of the quantitative goodwill impairment test. The estimated fair value of each reporting unit exceeded its carrying value and, therefore, no impairment was recorded. The fair values of the reporting units were determined using DCF and market-based valuation models. Cash flows were determined based on Company estimates of future operating results and discounted using an internal rate of return based on an assessment of the risk inherent in future cash flows of the respective reporting unit. The market-based valuation models utilized multiples of earnings before interest, taxes, depreciation and amortization. Both the DCF and market-based models resulted in substantially similar fair values.

As of November 30, 2015 and 2014, the Company performed a qualitative goodwill impairment assessment for all reporting units, and determined that it was more likely than not that the fair value of those reporting units exceeded their carrying values.

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NOTE 9. DEBT
The table below presents the components of outstanding debt (in millions).

	December 31, 2016	December 31, 2015
5.625% Senior notes, semi-annual interest, due August 2019	$500	$500
5.05% Senior notes, semi-annual interest, due June 2020	1,300	1,300
4.375% Senior notes, semi-annual interest, due June 2021	650	650
2.375% Senior notes, euro denominated, annual interest, due March 2022	314	328
3.30% Senior notes, semi-annual interest, due May 2022	500	500
3.25% Senior notes, semi-annual interest, due April 2023	350	350
3.45% Senior notes, semi-annual interest, due March 2025	300	300
4.90% Senior notes, semi-annual interest, due March 2026	500	—
1.90% Senior notes, euro denominated, annual interest, due March 2027	627	656
6.35% Senior notes, semi-annual interest, due June 2040	850	850
4.95% Senior notes, semi-annual interest, due May 2042	500	500
4.875% Senior notes, semi-annual interest, due April 2043	850	850
Revolving credit facility	550	782
Commercial paper	48	93
Capital lease obligations	151	142
Total debt	7,990	7,801
Unamortized discount and debt issuance costs	(67)	(66)
Debt, net	7,923	7,735
Current portion of debt	(82)	(119)
Noncurrent portion of debt	$7,841	$7,616

Senior Notes
On March 11, 2016, Discovery Communications, LLC ("DCL"), a wholly-owned subsidiary of the Company, issued $500 million principal amount of 4.90% senior notes due March 11, 2026 (the "2016 USD Notes"). The proceeds received by DCL from the offering were net of a $2 million issuance discount and $3 million of debt issuance costs. Interest on the 2016 USD Notes is payable semi-annually on March 11 and September 11 of each year. All senior notes are unsecured and are fully and unconditionally guaranteed by Discovery.
Revolving Credit Facility
On February 4, 2016, DCL amended its $1.5 billion revolving credit facility to allow DCL and certain designated foreign subsidiaries of DCL to borrow up to $2.0 billion, including a $100 million sublimit for the issuance of standby letters of credit and a $50 million sublimit for swingline loans. Borrowing capacity under this agreement is reduced by any outstanding borrowings under the commercial paper program discussed below. The revolving credit facility agreement provides for a maturity date of February 4, 2021, and the option for up to two additional 364-day renewal periods.
As of December 31, 2016, the Company had outstanding borrowings under the revolving credit facility of $550 million at a weighted average interest rate of 2.05%, none of which were denominated in foreign currencies. As of December 31, 2015, the Company had outstanding borrowings under the revolving credit facility of $782 million at a weighted average interest rate of 1.55%, of which $207 million was denominated in foreign currencies. The interest rate on borrowings under the revolving credit facility is variable based on DCL's then-current credit ratings for its publicly traded debt and changes in financial index rates. For dollar-denominated borrowings, the interest rate is based, at the Company's option, on either adjusted LIBOR plus a margin, or an alternate base rate plus a margin. For borrowings denominated in foreign currencies, the interest rate is based on adjusted LIBOR, plus a margin. The current margins are 1.30% and 0.30%, respectively, per annum for adjusted LIBOR and alternate base rate

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

DISCOVERY COMMUNICATIONS, INC.
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The credit agreement governing the revolving credit facility contains customary representations, warranties and events of default, as well as affirmative and negative covenants. As of December 31, 2016, the Company, DCL and the other borrowers were in compliance with all covenants, and there were no events of default under the revolving credit facility.

Commercial Paper

The Company's commercial paper program is supported by the revolving credit facility described above. Outstanding commercial paper borrowings were $48 million with a weighted average interest rate of approximately 1.20% as of December 31, 2016 and $93 million with a weighted average interest rate of approximately 1.10% as of December 31, 2015. The Company's outstanding commercial paper borrowings as of December 31, 2016 and 2015 had maturities of less than 90 days.

Long-term Debt Repayment Schedule

The following table presents a summary of scheduled and estimated debt payments, excluding the revolving credit facility, commercial paper borrowings and capital lease obligations, for the succeeding five years based on the amount of debt outstanding as of December 31, 2016 (in millions).

	2017	2018	2019	2020	2021	Thereafter
Long-term debt repayments	$ —	$ —	$500	$1,300	$650	$ 4,791

Scheduled payments for capital lease obligations outstanding as of December 31, 2016 are disclosed in Note 20.

NOTE 10. DERIVATIVE FINANCIAL INSTRUMENTS

The Company uses derivative financial instruments to modify its exposure to market risks from changes in foreign currency exchange rates, interest rates and the fair value of investments classified as AFS securities. At the inception of a derivative contract, the Company designates the derivative as (i) a cash flow hedge, (ii) a net investment hedge, (iii) a fair value hedge, or (iv) an instrument with no hedging designation. The Company does not enter into or hold derivative financial instruments for speculative trading purposes.

Cash Flow Hedges

The Company designates foreign currency forward and option contracts as cash flow hedges to mitigate foreign currency risk arising from third-party revenue and inter-company licensing agreements. The Company also designates interest rate contracts used to hedge the pricing for certain senior notes as cash flow hedges. The total notional amount of outstanding foreign exchange contracts designated as cash flow hedges as of December 31, 2016 and 2015 was $677 million and $868 million, respectively.

During the three months ended December 31, 2016, the Company terminated and settled its outstanding interest rate cash flow hedges which resulted in a $40 million pretax gain. As the hedges were considered to be effective and the forecasted transactions are considered probable of occurring, the gain will remain in accumulated other comprehensive loss and will be amortized as a reduction to interest expense over the term of the forecasted senior notes. There were no interest rate contracts outstanding as of December 31, 2015.

During the three months ended September 30, 2016, the Company discontinued hedge accounting for certain foreign currency forward and option cash flow hedges with notional and fair value amounts of $125 million and $14 million, respectively. At that time, the occurrence of the forecasted intercompany transactions was no longer considered probable, but was still reasonably possible of occurring. The change in probability was the result of new tax regulations that impacted the planned intercompany transactions that were hedged. As a result of the change in probability, subsequent changes in the fair value of these hedges were reflected immediately in other income (expense), net on the consolidated statements of operations. The result was a $1 million gain recognized on the consolidated statements of operations for the period until November 1, 2016, when the forecasted transactions were once again considered probable, as it was determined that no changes to the forecasted intercompany transactions would occur. Accordingly, any changes in the fair value of these hedges subsequent to that date will remain in accumulated other comprehensive loss until earnings are impacted by the forecasted transaction, at which time they will be reclassified to other income (expense), net on the consolidated statements of operations.

During the three months ended March 31, 2015, the Company terminated and settled its interest rate cash flow hedges following the pricing of its 3.45% senior notes due March 15, 2025 (the "2015 USD Notes"). The total notional value of the interest rate forward contracts at the termination date was $490 million, which exceeded the $300 million principal amount of the 2015 USD Notes. Of the $40 million pretax loss recorded in accumulated other comprehensive loss at the termination date, $29 million was an effective cash flow hedge that will be amortized as an adjustment to interest expense over the ten year term of the 2015 USD Notes consistent with amortization of the debt discount. The remaining $11 million was reclassified into other income

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(expense), net on the consolidated statements of operations during the year ended December 31, 2015, because the forecasted borrowing transaction was no longer probable.

Net Investment Hedges

In 2016, the Company entered into a series of cross-currency swaps designated as hedges of net investments in foreign operations. Changes in the fair value of these cross-currency swaps, including the accrual and periodic cash settlement of interest, are reported in the same manner as translation adjustments to the extent that they are effective. Changes in the value of the investment due to changes in spot rates are offset by fair value changes in the effective portion of the derivative instruments. The notional amount of net investment hedges outstanding as of December 31, 2016 was $751 million. There were no derivative contracts designated as net investment hedges outstanding as of December 31, 2015.

Fair Value Hedges

The Company designates derivative instruments used to mitigate the risk of changes in the fair value of its AFS securities as fair value hedges. On November 12, 2015, the Company entered into the Lionsgate Collar, designed to mitigate the risk of market fluctuations with respect to 50% of the Lionsgate shares held by the Company. (See Note 4.) The collar, which qualifies for hedge accounting, settles in three tranches starting in 2019 and ending in 2022. The notional amount of fair value hedges outstanding was $97 million as of December 31, 2016 and 2015.

No Hedging Designation

The Company may also enter into derivative financial instruments that do not qualify for hedge accounting and are not designated as hedges. These instruments are intended to mitigate economic exposures of the Company. The total notional amount of outstanding cross-currency and interest rate contracts with no hedging designation as of December 31, 2016 was $64 million and $25 million, respectively. There were no derivative contracts that did not receive hedging designation outstanding as of December 31, 2015.

Financial Statement Presentation

The Company records all unsettled derivative contracts at their gross fair values on the consolidated balance sheets. (See Note 5.) The portion of the fair value that represents cash flows occurring within one year are classified as current, and the portion related to cash flows occurring beyond one year are classified as noncurrent.

The following table summarizes the impact of derivative financial instruments on the Company's consolidated balance sheets (in millions). There were no amounts eligible to be offset under master netting agreements as of December 31, 2016 and December 31, 2015.

		Fair Value	
Category	Balance Sheet Location	December 31, 2016	December 31, 2015
Cash flow hedges:			
Foreign exchange	Prepaid expenses and other current assets	$ 31	$ 21
Foreign exchange	Other noncurrent assets	—	2
Foreign exchange	Accrued liabilities	18	4
Net investment hedges:			
Cross-currency swaps	Other noncurrent assets	35	—
Cross-currency swaps	Accrued liabilities	3	—
Cross-currency swaps	Other noncurrent liabilities	31	—
Fair value hedges:			
Equity (Lionsgate collar)	Other noncurrent assets	25	15
No hedging designation:			
Cross-currency swaps	Other noncurrent assets	1	—

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

	Year Ended December 31,		
	2016	2015	2014
(Losses) gains recognized in accumulated other comprehensive loss			
Foreign exchange - derivative adjustments	$ (1)	$ 34	$ 14
Interest rate - derivative adjustments	40	(11)	(28)
(Losses) gains reclassified into income from accumulated other comprehensive loss (effective portion)			
Foreign exchange - distribution revenue	(25)	23	—
Foreign exchange - advertising revenue	(2)	2	—
Foreign exchange - costs of revenues	27	9	1
Foreign exchange - other income (expense), net	3	4	3
Interest rate - interest expense	(3)	(3)	—
Gains (losses) reclassified into income from accumulated other comprehensive loss (ineffective portion)			
Foreign exchange - other income (expense), net	1	—	—
Interest rate - other income (expense), net	—	(11)	—
Fair value excluded from effectiveness assessment:			
Foreign exchange - other income (expense), net	(5)	—	—

If current fair values of designated cash flow hedges as of December 31, 2016 remained static over the next twelve months, the Company would reclassify $9 million of net deferred gains from accumulated other comprehensive loss into income in the next twelve months.

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

	Year Ended December 31,		
	2016	2015	2014
Gains recognized in accumulated other comprehensive loss:			
Cross-currency swaps - changes in fair value	$ 1	$ —	$ —
Cross-currency swaps - interest settlements	2	—	—
Total in other comprehensive loss	$ 3	$ —	$ —

The following table presents the pretax impact of derivatives designated as fair value hedges on income, including offsetting changes in fair value of the hedged items and amounts excluded from the assessment of effectiveness (in millions). The Company recognized $1 million of ineffectiveness on fair value hedges for the year ended December 31, 2016. The Company had no outstanding fair value hedges during the year ended December 31, 2014.

	Year Ended December 31,		
	2016	2015	2014
Losses on changes in fair value of hedged AFS	$ (17)	$ (2)	$ —
Gains on changes in the intrinsic value of equity contracts	16	2	—
Fair value of equity contracts excluded from effectiveness assessment	(6)	10	—
Total in other income (expense), net	$ (7)	$ 10	$ —

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

	Year Ended December 31,		
	2016	2015	2014
Foreign exchange derivatives	$ (1)	$ 6	$ 1

NOTE 11. REDEEMABLE NONCONTROLLING INTERESTS

Redeemable noncontrolling interests reflected as of the balance sheet date are the greater of the noncontrolling interest balances adjusted for comprehensive income items and distributions or the redemption values including any remeasurement necessary at the period end foreign exchange rates (i.e., the "floor"). Adjustments to the carrying amount of redeemable noncontrolling interests to redemption value as a result of changes in exchange rates are reflected in currency translation adjustments, a component of other comprehensive (loss) income; however, such currency translation adjustments to redemption value are allocated to Discovery stockholders only. Redeemable noncontrolling interest adjustments of redemption value to the floor are reflected in retained earnings. Any adjustment of redemption value to the floor that reflects a redemption in excess of fair value is included as an adjustment to net income available to Discovery stockholders in the calculation of earnings per share. There were no current period adjustments to reflect a redemption in excess of fair value. (See Note 17.)

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

	December 31,		
	2016	2015	2014
Beginning balance	$241	$747	$36
Initial fair value of redeemable noncontrolling interests of acquired businesses	—	60	796
Purchase of subsidiary shares at fair value	—	(551)	(6)
Cash distributions to redeemable noncontrolling interests	(22)	(42)	(2)
Comprehensive (loss) income adjustments:			
Net income (loss) attributable to redeemable noncontrolling interests	23	13	(4)
Other comprehensive earnings (loss) attributable to redeemable noncontrolling interests	—	(23)	(40)
Currency translation on redemption values	1	(36)	(64)
Retained earnings adjustments:			
Adjustments to redemption value	—	73	31
Ending balance	$243	$241	$747

Redeemable noncontrolling interests consist of the arrangements described below:

In connection with the acquisition of a controlling interest in Eurosport France on March 31, 2015 and Eurosport International on May 30, 2014, the Company recognized $60 million and $558 million, respectively, for TF1's 49% redeemable noncontrolling interest in each entity. On July 22, 2015, TF1 exercised its right to put the entirety of its remaining 49% noncontrolling interest in both Eurosport France and Eurosport International to the Company for €491 million ($551 million as of the date redemption became mandatory, and $548 million on October 1, 2015 when the transaction closed). The difference between the carrying amount of the redeemable noncontrolling interest and its fair value at the date of exercise resulted in a €25 million ($28 million) adjustment to retained earnings, recognized as a component of redeemable noncontrolling interest adjustments to redemption value on the consolidated statements of equity for the year ended December 31, 2015. Upon acquisition of TF1's noncontrolling interest on October 1, 2015, the Company adjusted the accumulated other comprehensive income balance of $61 million attributable to TF1 and allocated it to Discovery stockholders.

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

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

NOTE 12. EQUITY

Common Stock

The Company has three series of common stock authorized, issued and outstanding as of December 31, 2016: Series A common stock, Series B common stock and Series C common stock. Holders of these three series of common stock have equal rights, powers and privileges, except as otherwise noted. Holders of Series A common stock are entitled to one vote per share and holders of Series B common stock are entitled to ten votes per share on all matters voted on by stockholders, except for directors to be elected by holders of the Company’s Series A convertible preferred stock. Holders of Series C common stock are not entitled to any voting rights, except as required by Delaware law. Generally, holders of Series A common stock and Series B common stock and Series A convertible preferred stock vote as one class, except for certain preferential rights afforded to holders of Series A convertible preferred stock. Holders of Series A common stock, Series B common stock and Series C common stock will participate equally in cash dividends if declared by the Board of Directors, subject to preferential rights of outstanding preferred stock. Each share of Series B common stock is convertible, at the option of the holder, into one share of Series A common stock. Series A and Series C common stock are not convertible.

Generally, distributions made in shares of Series A common stock, Series B common stock or Series C common stock will be made proportionally to all common stockholders. In the event of a reclassification, subdivision or combination of any series of common stock, the shares of the other series of common stock will be equally reclassified, subdivided or combined.

In the event of a liquidation, dissolution, or winding up of Discovery, after payment of Discovery’s debts and liabilities and subject to preferential rights of outstanding preferred stock, holders of Series A common stock, Series B common stock and Series C common stock and holders of Series A and Series C preferred stock will share equally in any assets available for distribution to holders of common stock.

On February 13, 2014, John C. Malone, a member of Discovery’s Board of Directors, entered into an agreement granting David Zaslav, the Company’s President and CEO, certain voting and purchase rights with respect to the approximately 6 million shares of the Company’s Series B common stock owned by Mr. Malone. The agreement gives Mr. Zaslav the right to vote the Series B shares if Mr. Malone is not otherwise voting or directing the vote of those shares. The agreement also provides that if Mr. Malone proposes to sell the Series B shares, Mr. Zaslav will have the first right to negotiate for the purchase of the shares. If that negotiation is not successful and Mr. Malone proposes to sell the Series B shares to a third party, Mr. Zaslav will have the exclusive right to match that offer. The rights granted under the agreement will remain in effect for as long as Mr. Zaslav is either employed as the principal executive officer of the Company or serving on its Board of Directors.

Common Stock Repurchase Program

Under the Company's stock repurchase program, management is authorized to purchase shares of the Company's common stock from time to time through open market purchases, privately negotiated transactions at prevailing prices, pursuant to one or more accelerated stock repurchase agreements, or other derivative arrangements as permitted by securities laws and other legal requirements, and subject to stock price, business and market conditions and other factors. As of December 31, 2016, the total amount authorized under the stock repurchase program was $7.5

billion, and the Company had remaining authorization of approximately $1.1 billion for future repurchases under the existing stock repurchase program, which will expire on October 8, 2017.

All common stock repurchases, including prepaid common stock repurchase contracts, during 2016, 2015 and 2014 were made through open market transactions. As of December 31, 2016, the Company had repurchased over the life of the program 3 million and 150 million shares of Series A and Series C common stock, respectively, for the aggregate purchase price of $171 million and $6.2 billion, respectively.

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The table below presents a summary of common stock repurchases (in millions).

	Year Ended December 31,		
	2016	2015	2014
Series C Common Stock:			
Shares repurchased	34.8	23.7	21.3
Purchase price[a]	$ 895	$ 698	$ 1,232

[a] The purchase price for Series C common stock includes repurchases made pursuant to a common stock repurchase contract that was executed on August 22, 2016 and settled on December 2, 2016 at a cost of $71 million, resulting in the receipt of 2.8 million shares of Series C common stock at the then current market price equal to $75 million. See below for additional details.

Repurchased common stock is recorded as treasury stock on the consolidated balance sheet. The Company's 2 for 1 stock split in the form of a share dividend distributed on August 6, 2014 was not applied to the Company's treasury shares. Accordingly, the number of common shares repurchased under the common stock repurchase program has not been retroactively adjusted to give effect to the stock split.

Common Stock Repurchase Contracts

In 2016 the Company entered into two common stock repurchase contracts for the Company's Series C common stock.

On December 15, 2016, the Company made an up front cash payment of $57 million for a Series C common stock repurchase contract, with a strike price of $28.16, that will settle during the quarter ended March 31, 2017. If Discovery's Series C common stock price is below the strike price at expiry, the Company will receive 2 million shares of its Series C common stock. If Discovery's Series C common stock price is above the strike price at expiry, the Company can elect to receive $60 million in cash or the number of shares of Series C common stock at the then current market price equal to $60 million.

On December 2, 2016, the Company settled an August 22, 2016 common stock repurchase contract with a net notional value of $71 million whose strike price of $25.86 was below the Series C common stock price at expiry. The Company elected to settle the contract through 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.

Convertible Preferred Stock

The Company has two series of preferred stock authorized, issued and outstanding as of December 31, 2016: Series A convertible preferred stock and Series C convertible preferred stock. In addition to the 150 million shares authorized for Series A and Series C convertible preferred stock (75 million shares for each series) that is disclosed on the consolidated balance sheets, the Company has authorized 50 million shares of preferred stock that are undesignated and issuable in accordance with the provisions of the Company’s charter. In connection with the formation of Discovery, the Company issued shares of both its Series A convertible preferred stock and Series C convertible preferred stock to Advance/Newhouse Programming Partnership ("Advance/Newhouse"). As of December 31, 2016, all outstanding shares of Series A and Series C convertible preferred stock are held by Advance/Newhouse.

Holders of Series A and Series C convertible preferred stock have equal rights, powers and privileges, except as otherwise noted. Except for the election of common stock directors, the holders of Series A convertible preferred stock are entitled to vote on matters to which holders of Series A and Series B common stock are entitled to vote, and holders of Series C convertible preferred stock are entitled to vote on matters to which holders of Series C common stock are entitled to vote pursuant to Delaware law. Series A convertible preferred stockholders vote on an as converted to common stock basis together with the Series A and Series B common stockholders as a single class on all matters except the election of directors.

Additionally, through its ownership of the Series A convertible preferred stock, Advance/Newhouse has special voting rights on certain matters and the right to elect three directors. Holders of the Company's common stock are not entitled to vote in the election of such directors. Advance/Newhouse retains these rights so long as it or its permitted transferees own or have the right to vote such shares that equal at least 80% of the shares of Series A convertible preferred stock issued to Advance/Newhouse in connection with the formation of Discovery plus any Series A convertible preferred stock released from escrow, as may be adjusted for certain capital transactions (the "Base Amount").

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Subject to the prior preferences and other rights of any senior stock, holders of Series A and Series C convertible preferred stock will participate equally with common stockholders on an as converted to common stock basis in any cash dividends declared by the Board of Directors.

Each share of Series A preferred stock is convertible, at the option of the holder, following the August 2014 stock split in the form of a stock dividend, into one share of Series A common stock and one share of Series C common stock, subject to anti-dilution adjustments. The Series C preferred stock is convertible, at the option of the holder, into two shares of Series C common stock. At the request of Advance/Newhouse and in accordance with the Company's Articles of Incorporation, the Company converted 292,500 and 961,538 shares of Advance/Newhouse Series C convertible preferred stock into 585,000 and 1,923,076 shares of Series C common stock on February 25, 2016 and December 2, 2016, respectively. Generally, each share of Series A and Series C convertible preferred stock will automatically convert into the applicable series of common stock if such shares are transferred from Advance/Newhouse to a third party and such transfer is not a permitted transfer. Additionally, all of the outstanding Series A and Series C convertible preferred stock will automatically convert into the applicable series of common stock at such time as the number of outstanding shares of Series A convertible preferred stock is less than 80% of the Base Amount. The Base Amount is the 70 million shares of Series A and Series C Preferred Stock initially issued to Advance/Newhouse, plus any shares released from escrow as of the date the Base Amount is calculated.

In the event of a liquidation, dissolution or winding up of Discovery, after payment of Discovery’s debts and liabilities and subject to the prior payment with respect to any stock ranking senior to Series A and Series C convertible preferred stock, the holders of Series A and Series C convertible preferred stock will receive, before any payment or distribution is made to the holders of any common stock or other junior stock, an amount (in cash or property) equal to $0.01 per share. Following payment of such amount and the payment in full of all amounts owing to the holders of securities ranking senior to Discovery’s common stock, holders of Series A and Series C convertible preferred stock will share equally on an as converted to common stock basis with the holders of common stock with respect to any assets remaining for distribution to such holders.

Preferred Stock Conversion and Repurchases

On May 22, 2014, the Company 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 the Company’s stock repurchase program during the then most recently completed fiscal quarter. The price paid per share is calculated as 99% of the average price paid for the Series C common shares repurchased by the Company during the applicable fiscal quarter multiplied by the Series C conversion rate. The Advance/Newhouse repurchases are made outside of the Company’s publicly announced stock repurchase program. The repurchase transactions are recorded as a decrease of par value of preferred stock and retained earnings upon settlement using cash on hand as there is no remaining additional paid-in capital for this class of stock.

The table below presents a summary of Series C convertible preferred stock repurchases made under the repurchase agreement (in millions).

	Year Ended December 31,	
	2016	2015
Series C Convertible Preferred Stock:		
Shares repurchased	9.1	3.9
Purchase price	$ 479	$ 253

Based on the number of shares of Series C common stock purchased during the three months ended December 31, 2016, the Company expects Advance/Newhouse to effectively convert and sell to the Company 1 million shares of its Series C convertible preferred stock for an aggregate purchase price of $60 million on or about February 16, 2017. The expected purchase of these shares has not been recognized as a liability on the Company's consolidated balance sheet as of December 31, 2016 due to certain termination rights in the repurchase agreement held by Discovery and Advance/Newhouse.

Stock Repurchases

As of December 31, 2016, total shares repurchased, on a split-adjusted and as-converted basis, under these programs represent 36% of the Company's outstanding shares from the time the repurchase programs were authorized or 31% net of issuances for equity based compensation.

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

	Year Ended December 31, 2016			Year Ended December 31, 2015			Year Ended December 31, 2014		
	Pretax	Tax Benefit (Expense)	Net-of-tax	Pretax	Tax Benefit (Expense)	Net-of-tax	Pretax	Tax Benefit(Expense)	Net-of-tax
Currency translation adjustments:									
Unrealized losses - foreign currency	$(234)	$ 41	$ (193)	$(249)	$ 19	$ (230)	$(401)	$ 9	$ (392)
Unrealized gains - net investment hedge	3	(1)	2	—	—	—	—	—	—
Reclassifications:									
Gain on disposition	—	—	—	23	—	23	—	—	—
Other income (expense), net	—	—	—	6	—	6	(7)	—	(7)
Total currency translation adjustments	(231)	40	(191)	(220)	19	(201)	(408)	9	(399)
Market value adjustments:									
Unrealized (losses) gains - AFS securities	(34)	6	(28)	(33)	6	(27)	2	(1)	1
Reclassifications:									
Gain on disposition	—	—	—	—	—	—	(5)	2	(3)
Other-than-temporary-impairment AFS securities	62	(10)	52	—	—	—	—	—	—
Hedged portion of AFS securities	17	(3)	14	2	—	2	—	—	—
Total market value adjustments	45	(7)	38	(31)	6	(25)	(3)	1	(2)
Derivative adjustments:									
Gains (losses) in other comprehensive loss	39	(14)	25	23	(8)	15	(14)	6	(8)
Reclassifications:									
Distribution revenue	25	(7)	18	(23)	8	(15)	—	—	—
Advertising revenue	2	—	2	(2)	—	(2)	—	—	—
Costs of revenues	(27)	7	(20)	(9)	3	(6)	(1)	—	(1)
Interest expense	3	(1)	2	3	(1)	2	—	—	—
Other income (expense), net	(4)	1	(3)	7	(2)	5	(3)	1	(2)
Total derivative adjustments	38	(14)	24	(1)	—	(1)	(18)	7	(11)
Other comprehensive loss	$(148)	$ 19	$ (129)	$(252)	$ 25	$ (227)	$(429)	$ 17	$ (412)

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Accumulated Other Comprehensive Loss

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

	Currency Translation Adjustments	Market Value Adjustments	Derivative Adjustments	Accumulated Other Comprehensive Income (Loss)
December 31, 2013	$ (8)	$ —	$ 12	$ 4
Other comprehensive (loss) income before reclassifications	(392)	1	(8)	(399)
Reclassifications from accumulated other comprehensive loss to net income	(7)	(3)	(3)	(13)
Other comprehensive loss	(399)	(2)	(11)	(412)
Other comprehensive loss attributable to redeemable noncontrolling interests	40	—	—	40
December 31, 2014	(367)	(2)	1	(368)
Other comprehensive (loss) income before reclassifications	(230)	(27)	15	(242)
Reclassifications from accumulated other comprehensive loss to net income	29	2	(16)	15
Other comprehensive loss	(201)	(25)	(1)	(227)
Purchase of redeemable noncontrolling interest	(61)	—	—	(61)
Other comprehensive loss attributable to redeemable noncontrolling interests	23	—	—	23
December 31, 2015	(606)	(27)	—	(633)
Other comprehensive (loss) income before reclassifications	(191)	(28)	25	(194)
Reclassifications from accumulated other comprehensive loss to net income	—	66	(1)	65
Other comprehensive (loss) income	(191)	38	24	(129)
December 31, 2016	$ (797)	$ 11	$ 24	$ (762)

NOTE 13. EQUITY-BASED COMPENSATION

The Company has various incentive plans under which stock options, RSUs, PRSUs, SARs and unit awards have been issued. As of December 31, 2016, the Company has reserved a total of 120 million shares of its Series A and Series C common stock for future exercises of outstanding and future grants of stock options and stock-settled SARs and future vesting of outstanding and future grants of PRSUs and RSUs. Upon exercise of stock options and stock-settled SARs or vesting of PRSUs and RSUs, the Company issues new shares from its existing authorized but unissued shares. There were 99 million shares of common stock in reserves that were available for future grant under the incentive plans as of December 31, 2016.

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Equity-Based Compensation Expense

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

	Year Ended December 31,		
	2016	2015	2014
PRSUs	$34	$16	$46
RSUs	17	17	14
Stock options	13	17	23
SARs	4	(14)	(11)
ESPP	1	1	1
Unit awards	—	(2)	5
Total equity-based compensation expense	$69	$35	$78
Tax benefit recognized	$25	$13	$27

Compensation expense for all awards was recorded in selling, general and administrative expense on the consolidated statements of operations. Liability-classified equity-based compensation awards include certain PRSUs, SARS and unit awards. The Company recorded total liabilities for cash-settled and other liability-classified equity-based compensation awards of $83 million and $54 million as of December 31, 2016 and 2015, respectively. The current portion of the liability for cash-settled awards was $31 million and $5 million as of December 31, 2016 and 2015, respectively.

Equity-Based Award Activity

PRSUs

The table below presents PRSU activity (in millions, except years and weighted-average grant price).

	PRSUs	Weighted-Average Grant Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Fair Value
Outstanding as of December 31, 2015	4.2	$ 35.07		
Granted	1.0	$ 25.15		
Converted	(0.6)	$ 22.32		$ 15
Forfeited	(0.1)	$ 36.05		
Outstanding as of December 31, 2016	4.5	$ 34.44	0.6	$ 121
Vested and expected to vest as of December 31, 2016	4.4	$ 34.56	0.6	$ 119
Convertible as of December 31, 2016	0.9	$ 30.23	—	$ 23

The Company has granted PRSUs to certain senior level executives. PRSUs represent the contingent right to receive shares of the Company's Series A and C common stock, substantially all of which vest over three to four years based on continuous service and whether the Company achieves certain operating performance targets. The performance targets for substantially all PRSUs are cumulative measures of the Company's adjusted operating income before depreciation and amortization (as defined in Note 21), free cash flows and revenues over a three year period. The number of PRSUs that vest principally range from 0% to 100% based on a sliding scale where achieving or exceeding the performance target will result in 100% of the PRSUs vesting and achieving less than 80% of the target will result in no portion of the PRSUs vesting. Additionally, for certain PRSUs the Company's Compensation Committee has discretion in determining the final amount of units that vest, but may not increase the amount of any PRSU award above 100%. Upon vesting, each PRSU becomes convertible into one share of the Company's Series A or Series C common stock as applicable. Holders of PRSUs do not receive payments of dividends in the event the Company pays a cash dividend until such PRSUs are converted into shares of the Company's common stock.

The Company records compensation expense for PRSUs ratably over the graded vesting service period once it is probable that the performance targets will be achieved. In any period in which the Company determines that achievement of the

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performance targets is not probable, the Company ceases recording compensation expense and all previously recognized compensation expense for the award is reversed.

Compensation expense is separately recorded for each vesting tranche of PRSUs for a particular grant. For certain PRSUs, the Company measures the fair value and related compensation cost based on the closing price of the Company's Series A or C common stock on the grant date. For PRSUs for which the Company's Compensation Committee has discretion in determining the final amount of units that vest or in situations where the executive is able to withhold taxes in excess of the minimum statutory requirement, compensation cost is remeasured at each reporting date based on the closing price of the Company's Series A or Series C common stock.

As of December 31, 2016, unrecognized compensation cost, net of expected forfeitures, related to PRSUs was $20 million, which is expected to be recognized over a weighted-average period of 0.7 years based on the Company's current assessment of the PRSUs that will vest, which may differ from actual results.

RSUs

The table below presents RSU activity (in millions, except years and weighted-average grant price).

	RSUs	Weighted-Average Grant Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Fair Value
Outstanding as of December 31, 2015	2.0	$ 34.62		
Granted	1.4	$ 25.22		
Converted	(0.4)	$ 33.41		$ 10
Forfeited	(0.4)	$ 32.45		
Outstanding as of December 31, 2016	2.6	$ 30.03	2.7	$ 73
Vested and expected to vest as of December 31, 2016	2.4	$ 30.17	2.6	$ 64

RSUs represent the contingent right to receive shares of the Company's Series A and C common stock, substantially all of which vest ratably each year over periods of one to four years based on continuous service. As of December 31, 2016, there was $43 million of unrecognized compensation cost, net of expected forfeitures, related to RSUs, which is expected to be recognized over a weighted-average period of 2.8 years.

Stock Options

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

	Stock Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding as of December 31, 2015	15.3	$ 24.01		
Granted	3.0	$ 25.71		
Exercised	(3.4)	$ 13.95		$ 42
Forfeited	(1.2)	$ 33.67		
Outstanding as of December 31, 2016	13.7	$ 26.05	3.5	$ 59
Vested and expected to vest as of December 31, 2016	13.2	$ 25.94	3.6	$ 59
Exercisable as of December 31, 2016	8.0	$ 23.21	2.2	$ 54

Stock options are granted with an exercise price equal to or in excess of the closing market price of the Company's Series A or Series C common stock on the date of grant. Substantially all stock options vest ratably over three to four years from the grant date based on continuous service and expire seven to ten years from the date of grant. Stock option awards generally provide for accelerated vesting upon retirement or after reaching a specified age and years of service. The Company received cash payments from the exercise of stock options totaling $46 million, $16 million and $35 million during 2016, 2015 and 2014, respectively. As of December 31, 2016, there was $29 million of unrecognized compensation cost, net of expected forfeitures, related to stock options, which is expected to be recognized over a weighted-average period of 2.1 years.

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The fair value of stock options is estimated using the Black-Scholes option-pricing model. The weighted-average assumptions used to determine the fair value of stock options as of the date of grant during 2016, 2015 and 2014 were as follows.

	Year Ended December 31,		
	2016	2015	2014
Risk-free interest rate	1.26 %	1.54 %	1.53 %
Expected term (years)	5.0	5.0	5.0
Expected volatility	28.74%	26.78%	26.20%
Dividend yield	—	—	—

The weighted-average grant date fair value of options granted during 2016, 2015 and 2014 was $7.09, $8.44 and $19.73, respectively, per option. The total intrinsic value of options exercised during 2016, 2015 and 2014 was $42 million, $28 million and $63 million, respectively.

SARs

The table below presents SAR award activity (in millions, except years and weighted-average grant price).

	SARs	Weighted-Average Grant Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding as of December 31, 2015	10.4	$ 37.38		
Granted	2.4	$ 25.79		
Settled	(0.9)	$ 20.67		$ 5
Forfeited	(3.3)	$ 38.65		
Outstanding as of December 31, 2016	8.6	$ 35.29	1.0	$ 3
Vested and expected to vest as of December 31, 2016	8.6	$ 35.30	1.0	$ 3

SAR award grants include cash-settled SARs and stock-settled SARs. Cash-settled SARs entitle the holder to receive a cash payment for the amount by which the price of the Company's Series A or Series C common stock exceeds the base price established on the grant date. Cash-settled SARs are granted with a base price equal to or greater than the closing market price of the Company's Series A or Series C common stock on the date of grant. Stock-settled SARs entitle the holder to shares of Series A or Series C common stock in accordance with the award agreement terms.

The fair value of outstanding SARs is estimated using the Black-Scholes option-pricing model. The weighted-average assumptions used to determine the fair value of outstanding SARs were as follows.

	Year Ended December 31,		
	2016	2015	2014
Risk-free interest rate	0.95 %	0.83 %	0.59 %
Expected term (years)	0.9	1.0	1.3
Expected volatility	29.46%	31.59%	27.72%
Dividend yield	—	—	—

As of December 31, 2016 and 2015, the weighted-average fair value of SARs outstanding was $1.79 and $1.15 per award. The Company made cash payments of $5 million, $11 million and $29 million to settle exercised SARs during 2016, 2015 and 2014, respectively. As of December 31, 2016, there was $8 million of unrecognized compensation cost, net of estimated forfeitures, related to SARs, which is expected to be recognized over a weighted-average period of 0.8 years.

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Unit Awards

Unit awards represent the contingent right to receive a cash payment for the amount by which the vesting price exceeds the grant price. Because unit awards are cash-settled, the Company remeasures the fair value and compensation expense of outstanding unit awards each reporting date until settlement. During the year ended December 31, 2015, the Company made cash payments of $14 million to settle all 1.2 million remaining unit awards, which had a weighted-average grant price of $20.59.

Employee Stock Purchase Plan

The DESPP enables eligible employees to purchase shares of the Company's common stock through payroll deductions or other permitted means. Unless otherwise determined by the Company's Compensation Committee, the purchase price for shares offered under the DESPP is 85% of the closing price of the Company's Series A common stock on the purchase date. The Company recognizes the fair value of the discount associated with shares purchased in selling, general and administrative expense on the consolidated statement of operations. The Company's Board of Directors has authorized 9 million shares of the Company's common stock to be issued under the DESPP. During the years ended December 31, 2016, 2015 and 2014 the Company issued 191 thousand, 208 thousand and 191 thousand shares under the DESPP, respectively, and received cash totaling $4 million, $5 million and $6 million, respectively.

NOTE 14. RETIREMENT SAVINGS PLANS

The Company has defined contribution and other savings plans for the benefit of its employees that meet eligibility requirements. Eligible employees may contribute a portion of their compensation to the plans, which may be subject to certain statutory limitations. For these plans, the Company also makes contributions including discretionary contributions, subject to plan provisions, which vest immediately. The Company made total contributions of $29 million, $36 million and $33 million during 2016, 2015 and 2014, respectively. The Company's contributions were recorded in selling, general and administrative expense in the consolidated statements of operations.

The Company's savings plans include a deferred compensation plan through which members of the Company's executive team in the U.S. may elect to defer up to 50% of their eligible compensation. The amounts deferred are invested in various mutual funds at the direction of the executive, which are used to finance payment of the deferred compensation obligation. Distributions from the deferred compensation plan are made upon termination or other events as specified in the plan. The Company has established a separate trust to hold the investments that finance the deferred compensation obligation. The accounts of the separate trust are included in the Company's consolidated financial statements. The investments are included in prepaid expenses and other current assets and the deferred compensation obligation is included in accrued liabilities in the consolidated balance sheets. The values of the investments and deferred compensation obligation are recorded at fair value. Changes in the fair value of the investments are offset by changes in the fair value of the deferred compensation obligation. (See Note 5.)

NOTE 15. RESTRUCTURING AND OTHER CHARGES

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

	Year Ended December 31,		
	2016	2015	2014
U.S. Networks	$ 15	$ 33	$ 61
International Networks	26	14	24
Education and Other	3	2	3
Corporate	14	1	2
Total restructuring and other charges	$ 58	$ 50	$ 90

	Year Ended December 31,		
	2016	2015	2014
Restructuring charges	$ 55	$ 29	$ 35
Other charges	3	21	55

Total restructuring and other charges	$ 58	$ 50	$ 90

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Restructuring charges relate to management changes, cost reduction efforts and contract terminations. Other charges during 2016 and 2015 result from content impairments primarily at the Company's U.S. Networks segment due to the cancellation of certain series as a result of legal circumstances pertaining to the associated talent. Additionally, the consolidation and subsequent rebranding of Discovery Family resulted in content impairments in 2014 that were reflected as a component of restructuring and other (See Note 6).

Changes in restructuring and other liabilities by major category were as follows (in millions).

	Contract Terminations	Employee Relocations/ Terminations	Total
December 31, 2013	$ 2	$ 5	$7
Net accruals	3	32	35
Cash paid	(1)	(22)	(23)
December 31, 2014	4	15	19
Net accruals	3	26	29
Cash paid	(5)	(20)	(25)
December 31, 2015	2	21	23
Net accruals	3	52	55
Cash paid	(2)	(37)	(39)
December 31, 2016	$ 3	$ 36	$39

NOTE 16. INCOME TAXES

The domestic and foreign components of income before income taxes were as follows (in millions).

	Year Ended December 31, 2016	2015	2014
Domestic	$1,414	$1,281	$1,251
Foreign	257	278	496
Income before income taxes	$1,671	$1,559	$1,747

The components of the provision for income taxes were as follows (in millions).

	Year Ended December 31, 2016	2015	2014
Current:			
Federal	$384	$306	$529
State and local	(56)	57	64
Foreign	152	146	198
	480	509	791
Deferred:			
Federal	45	59	(112)
State and local	—	(10)	(16)
Foreign	(72)	(47)	(53)
	(27)	2	(181)
Income taxes	$453	$511	$610

The Company has a regional ownership structure for its international operations. The regional holding companies are foreign corporations whose earnings will not be taxed in the U.S. until the earnings are repatriated to the U.S. The Company has not recorded a provision for deferred U.S. tax expense on the undistributed earnings of these foreign subsidiaries since the Company intends to indefinitely reinvest the earnings of these foreign subsidiaries outside the

U.S. The amount of such undistributed earnings was approximately $659 million at December 31, 2016. The determination of the amount of unrecognized U.S. deferred income tax liability with respect to these undistributed earnings is not practicable.

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

	Year Ended December 31,		
	2016	2015	2014
U.S. federal statutory income tax rate	35 %	35 %	35 %
State and local income taxes, net of federal tax benefit	(2)%	2 %	2 %
Effect of foreign operations	(1)%	1 %	2 %
Domestic production activity deductions	(4)%	(3)%	(3)%
Change in uncertain tax positions	— %	(1)%	(1)%
Renewable energy investments tax credits	(1)%	— %	— %
Other, net	— %	(1)%	— %
Effective income tax rate	27 %	33 %	35 %

Components of deferred income tax assets and liabilities were as follows (in millions).

	December 31,	
	2016	2015
Deferred income tax assets:		
Accounts receivable	$2	$2
Tax attribute carry-forward	67	46
Unrealized loss on derivatives and foreign currency translation adjustments	—	(5)
Accrued liabilities and other	174	223
Total deferred income tax assets	243	266
Valuation allowance	(25)	(19)
Net deferred income tax assets	218	247
Deferred income tax liabilities:		
Intangible assets	(384)	(460)
Content rights	(166)	(143)
Equity method investments	(76)	(88)
Notes receivable	(7)	(8)
Other	(32)	(18)
Total deferred income tax liabilities	(665)	(717)
Net deferred income tax liabilities	$(447)	$(470)

The Company's net deferred income tax assets and liabilities were reported on the consolidated balance sheets as follows (in millions).

	December 31,	
	2016	2015
Deferred income tax assets[(a)]	$106	$86
Deferred income tax liabilities	(553)	(556)
Net deferred income tax liabilities	$(447)	$(470)

[(a)] As of December 31, 2016 and December 31, 2015, deferred income tax assets include $9 million and $18 million in noncurrent deferred income tax assets, respectively, which are reflected as a component of other noncurrent assets on the consolidated balance sheet.

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The Company's loss carry-forwards were reported on the consolidated balance sheets as follows (in millions).

	State	Foreign
Loss carry-forwards[a]	$724	$ 169
Deferred tax asset related to loss carry-forwards	10	37
Valuation allowance against loss carry-forwards	(7)	(18)
Earliest expiration date of loss carry-forwards	2017	2018

[a] The Company had no Federal loss carry-forwards reported on the consolidated balance sheets as of December 31, 2016.

A reconciliation of the beginning and ending amounts of unrecognized tax benefits (without related interest and penalty amounts) is as follows (in millions).

	Year Ended December 31,		
	2016	2015	2014
Beginning balance	$ 173	$ 176	$ 185
Additions based on tax positions related to the current year	13	30	40
Additions for tax positions of prior years	19	17	82
Additions for tax positions acquired in business combinations	—	3	6
Reductions for tax positions of prior years	(60)	(21)	(129)
Settlements	(16)	(16)	—
Reductions due to lapse of statutes of limitations	(9)	(13)	(8)
Reductions due to foreign currency exchange rates	(3)	(3)	—
Ending balance	$ 117	$ 173	$ 176

The balances as of December 31, 2016, 2015 and 2014 included $117 million, $173 million and $176 million, respectively, of unrecognized tax benefits that, if recognized, would reduce the Company's income tax expense and effective tax rate after giving effect to interest deductions and offsetting benefits from other tax jurisdictions. For the year ended December 31, 2016, increases in unrecognized tax benefits related to the uncertainty of allocation and taxation of income among multiple jurisdictions was offset by the movements of tax positions as a result of multiple audit resolutions and lapse of statutes of limitations.

The Company and its subsidiaries file income tax returns in the U.S. and various state and foreign jurisdictions. The Internal Revenue Service recently completed audit procedures for its 2008 to 2011 tax years, the results of which should be finalized in the coming year. The Company is currently under audit by the Internal Revenue Service for its 2012 to 2014 consolidated federal income tax returns. It is difficult to predict the final outcome or timing of resolution of any particular tax matter. Accordingly, an estimate of any related impact to the reserve for uncertain tax positions cannot currently be determined. With few exceptions, the Company is no longer subject to audit by any jurisdiction for years prior to 2006. Adjustments that arose from the completion of audits for certain tax years have been included in the change in uncertain tax positions in the table above.

During the year ended December 31, 2016, the Company resolved multi-year state tax positions that resulted in a reduction of reserves related to uncertain tax positions. The effect is included within the effective tax rate reconciliation as a component of changes in state and local income taxes, net of federal tax benefit.

It is reasonably possible that the total amount of unrecognized tax benefits related to certain of the Company's uncertain tax positions could decrease by as much as $16 million within the next twelve months as a result of ongoing audits, lapses of statutes of limitations or regulatory developments.

As of December 31, 2016, 2015 and 2014, the Company had accrued approximately $11 million, $20 million and $17 million, respectively, of total interest and penalties payable related to unrecognized tax benefits. The Company recognizes interest and penalties related to unrecognized tax benefits as a component of income tax expense.

NOTE 17. EARNINGS PER SHARE

In calculating earnings per share, the Company follows the two-class method, which distinguishes between the classes of securities based on the proportionate participation rights of each security type in the Company's undistributed income. The

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Company's Series A, B and C common stock and the Series C convertible preferred stock are treated as one class for purposes of applying the two-class method, because they have substantially equal rights and share equally on an as converted basis with respect to income available to Discovery Communications, Inc.

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

	Year Ended December 31,		
	2016	2015	2014
Numerator:			
Net income	$1,218	$1,048	$1,137
Less:			
Allocation of undistributed income to Series A convertible preferred stock	(278)	(224)	(236)
Net income attributable to noncontrolling interests	(1)	(1)	(2)
Net (income) loss attributable to redeemable noncontrolling interests	(23)	(13)	4
Redeemable noncontrolling interest adjustments to redemption value	—	—	(1)
Net income available to Discovery Communications, Inc. Series A, B and C common and Series C convertible preferred stockholders for basic net income per share	$916	$810	$902
Allocation of net income available to Discovery Communications Inc. Series A, B and C common stockholders and Series C convertible preferred stockholders for basic net income per share:			
Series A, B and C common stockholders	789	686	758
Series C convertible preferred stockholders	127	124	144
Total	916	810	902
Add:			
Allocation of undistributed income to Series A convertible preferred stockholders	278	224	236
Net income available to Discovery Communications, Inc. Series A, B and C common stockholders for diluted net income per share	$1,194	$1,034	$1,138

Net income available to Discovery Communications, Inc. Series C convertible preferred stockholders for diluted net income per share is included in net income available to Discovery Communications, Inc. Series A, B and C common stockholders for diluted net income per share. For the years ended December 31, 2016 , 2015 and 2014, net income available to Discovery Communications, Inc. Series C convertible preferred stockholders for diluted net income per share was $126 million, $123 million and $143 million, respectively.

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

	Year Ended December 31,		
	2016	2015	2014
Denominator:			
Weighted average Series A, B and C common shares outstanding — basic	401	432	454
Weighted average impact of assumed preferred stock conversion	206	219	227
Weighted average dilutive effect of equity awards	3	5	6
Weighted average Series A, B and C common shares outstanding — diluted	610	656	687