

Discovery, Inc.  
Form 10-Q  
August 08, 2018

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

FORM 10-Q

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

For the quarterly period ended June 30, 2018

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

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

One Discovery Place 20910  
Silver Spring, Maryland  
(Address of principal executive offices) (Zip Code)  
(240) 662-2000  
(Registrant's telephone number, including area code)  
Not Applicable  
(Former name, former address and former fiscal year, if changed since last report.)

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

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

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Total number of shares outstanding of each class of the Registrant's common stock as of July 31, 2018:

|   |             |
|---|-------------|
| Series A Common Stock, par value \$0.01 per share | 156,245,469 |
| Series B Common Stock, par value \$0.01 per share | 6,512,378   |
| Series C Common Stock, par value \$0.01 per share | 359,666,216 |

DISCOVERY, INC.  
FORM 10-Q  
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## PART I. FINANCIAL INFORMATION

## ITEM 1. Unaudited Financial Statements.

## DISCOVERY, INC.

## CONSOLIDATED BALANCE SHEETS

(unaudited; in millions, except par value)

|   | June 30,<br>2018 | December 31,<br>2017 |
|---|------------------|----------------------|
| <b>ASSETS</b>   |                  |                      |
| Current assets:   |                  |                      |
| Cash and cash equivalents   | \$392            | \$ 7,309             |
| Receivables, net  | 2,747            | 1,838                |
| Content rights, net   | 358              | 410                  |
| Prepaid expenses and other current assets   | 409              | 434                  |
| Total current assets  | 3,906            | 9,991                |
| Noncurrent content rights, net  | 3,258            | 2,213                |
| Property and equipment, net   | 784              | 597                  |
| Assets held for sale  | 68               | —                    |
| Goodwill, net   | 13,119           | 7,073                |
| Intangible assets, net  | 10,368           | 1,770                |
| Equity method investments, including note receivable (See Note 3)                           | 1,023            | 335                  |
| Other noncurrent assets   | 966              | 576                  |
| Total assets  | \$33,492         | \$ 22,555            |
| <b>LIABILITIES AND EQUITY</b>   |                  |                      |
| Current liabilities:  |                  |                      |
| Accounts payable  | \$300            | \$ 277               |
| Accrued liabilities   | 1,473            | 1,309                |
| Deferred revenues   | 277              | 255                  |
| Current portion of debt   | 646              | 30                   |
| Total current liabilities   | 2,696            | 1,871                |
| Noncurrent portion of debt  | 17,683           | 14,755               |
| Deferred income taxes   | 1,968            | 319                  |
| Other noncurrent liabilities  | 1,109            | 587                  |
| Total liabilities   | 23,456           | 17,532               |
| Commitments and contingencies (See Note 17)   |                  |                      |
| Redeemable noncontrolling interests   | 410              | 413                  |
| Equity:   |                  |                      |
| Discovery, Inc. stockholders' equity:   |                  |                      |
| Series A-1 convertible preferred stock: \$0.01 par value; 8 authorized; 8 shares issued     | —                | —                    |
| Series C-1 convertible preferred stock: \$0.01 par value; 6 authorized; 6 shares issued     | —                | —                    |
| Series A common stock: \$0.01 par value; 1,700 shares authorized; 159 and 157 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; 524 and 383 shares issued | 5                | 4                    |
| Additional paid-in capital  | 10,590           | 7,295                |
| Treasury stock, at cost   | (6,737 )         | (6,737 )             |
| Retained earnings   | 4,867            | 4,632                |
| Accumulated other comprehensive loss  | (790 )           | (585 )               |
| Total Discovery, Inc. stockholders' equity  | 7,936            | 4,610                |
| Noncontrolling interests  | 1,690            | —                    |
| Total equity  | 9,626            | 4,610                |
| Total liabilities and equity  | \$33,492         | \$ 22,555            |

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

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

|  | Three Months<br>Ended June 30, |        | Six Months<br>Ended June 30, |         |
|--|--------------------------------|--------|------------------------------|---------|
|  | 2018                           | 2017   | 2018                         | 2017    |
| Revenues:  |                                |        |                              |         |
| Distribution   | \$1,186                        | \$857  | \$2,237                      | \$1,712 |
| Advertising  | 1,563                          | 805    | 2,575                        | 1,492   |
| Other  | 96                             | 83     | 340                          | 154     |
| Total revenues   | 2,845                          | 1,745  | 5,152                        | 3,358   |
| Costs and expenses:  |                                |        |                              |         |
| Costs of revenues, excluding depreciation and amortization                               | 995                            | 634    | 2,055                        | 1,241   |
| Selling, general and administrative  | 687                            | 389    | 1,296                        | 804     |
| Depreciation and amortization  | 410                            | 80     | 603                          | 160     |
| Restructuring and other charges  | 187                            | 8      | 428                          | 32      |
| (Gain) loss on disposition   | (84)                           | ) 4    | (84)                         | ) 4     |
| Total costs and expenses   | 2,195                          | 1,115  | 4,298                        | 2,241   |
| Operating income   | 650                            | 630    | 854                          | 1,117   |
| Interest expense   | (196)                          | ) (91) | (373)                        | ) (182) |
| Loss on extinguishment of debt   | —                              | —      | —                            | (54)    |
| Loss from equity investees, net  | (40)                           | ) (42) | (62)                         | ) (95)  |
| Other expense, net   | (47)                           | ) (24) | (69)                         | ) (37)  |
| Income before income taxes   | 367                            | 473    | 350                          | 749     |
| Income tax expense   | (123)                          | ) (93) | (103)                        | ) (148) |
| Net income   | 244                            | 380    | 247                          | 601     |
| Net income attributable to noncontrolling interests                                      | (23)                           | ) —    | (28)                         | ) —     |
| Net income attributable to redeemable noncontrolling interests                           | (5)                            | ) (6)  | (11)                         | ) (12)  |
| Net income available to Discovery, Inc.  | \$216                          | \$374  | \$208                        | \$589   |
| Net income per share allocated to Discovery, Inc. Series A, B and C common stockholders: |                                |        |                              |         |
| Basic  | \$0.30                         | \$0.65 | \$0.31                       | \$1.02  |
| Diluted  | \$0.30                         | \$0.64 | \$0.31                       | \$1.01  |
| Weighted average shares outstanding:   |                                |        |                              |         |
| Basic  | 523                            | 384    | 473                          | 387     |
| Diluted  | 712                            | 578    | 661                          | 583     |

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

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

|  | Three<br>Months<br>Ended June<br>30, |       | Six Months<br>Ended June<br>30, |       |
|--|--------------------------------------|-------|---------------------------------|-------|
|  | 2018                                 | 2017  | 2018                            | 2017  |
| Net income   | \$244                                | \$380 | \$247                           | \$601 |
| Other comprehensive (loss) income adjustments, net of tax:               |                                      |       |                                 |       |
| Currency translation   | (206 )                               | 91    | (203 )                          | 159   |
| Available-for-sale securities  | —                                    | 5     | —                               | 4     |
| Derivatives  | 29                                   | (9 )  | 24                              | (17 ) |
| Comprehensive income   | 67                                   | 467   | 68                              | 747   |
| Comprehensive income attributable to noncontrolling interests            | (23 )                                | —     | (28 )                           | —     |
| Comprehensive income attributable to redeemable noncontrolling interests | (5 )                                 | (6 )  | (11 )                           | (13 ) |
| Comprehensive income attributable to Discovery, Inc.                     | \$39                                 | \$461 | \$29                            | \$734 |

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

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

|  | Six Months<br>Ended June<br>30, |        |
|--|---------------------------------|--------|
|  | 2018                            | 2017   |
| Operating Activities   |                                 |        |
| Net income   | \$247                           | \$601  |
| Adjustments to reconcile net income to cash provided by operating activities:      |                                 |        |
| Share-based compensation expense   | 49                              | 22     |
| Depreciation and amortization  | 603                             | 160    |
| Content rights expense and impairment  | 1,660                           | 910    |
| (Gain) loss on disposition   | (84 )                           | 4      |
| Equity in losses of equity method investee companies, net of cash distributions    | 95                              | 100    |
| Deferred income taxes  | (80 )                           | (88 )  |
| Loss on extinguishment of debt   | —                               | 54     |
| Other, net   | 25                              | 16     |
| Changes in operating assets and liabilities, net of acquisitions and dispositions: |                                 |        |
| Receivables, net   | (176 )                          | (249 ) |
| Content rights and payables, net   | (1,583)                         | (947 ) |
| Accounts payable and accrued liabilities   | (68 )                           | (151 ) |
| Income taxes receivable and prepaid income taxes                                   | (42 )                           | 32     |
| Foreign currency and other, net  | 70                              | (21 )  |
| Cash provided by operating activities  | 716                             | 443    |
| Investing Activities   |                                 |        |
| Business acquisitions, net of cash acquired  | (8,565)                         | —      |
| Payments for investments   | (48 )                           | (270 ) |
| Proceeds from dispositions, net of cash disposed                                   | 107                             | 29     |
| Purchases of property and equipment  | (82 )                           | (78 )  |
| Distributions from equity method investees   | —                               | 18     |
| Proceeds from derivative instruments, net  | 1                               | 5      |
| Other investing activities, net  | 4                               | 3      |
| Cash used in investing activities  | (8,583)                         | (293 ) |
| Financing Activities   |                                 |        |
| Commercial paper borrowings, net   | 579                             | 25     |
| Borrowings under revolving credit facility   | —                               | 350    |
| Principal repayments of revolving credit facility                                  | (50 )                           | (200 ) |
| Borrowings under term loan facilities  | 2,000                           | —      |
| Principal repayments of term loans   | (1,500)                         | —      |
| Borrowings from debt, net of discount and including premiums                       | —                               | 659    |
| Principal repayments of debt, including discount payment and premiums to par value | —                               | (650 ) |
| Principal repayments of capital lease obligations                                  | (25 )                           | (19 )  |
| Repurchases of stock   | —                               | (501 ) |
| Cash settlement of common stock repurchase contracts                               | —                               | 58     |
| Distributions to noncontrolling interests and redeemable noncontrolling interests  | (59 )                           | (20 )  |
| Share-based plan proceeds, net   | 26                              | 11     |
| Borrowings under program financing line of credit                                  | 23                              | —      |
| Other financing activities, net  | (17 )                           | (8 )   |



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|  |         |        |
|--|---------|--------|
| Cash provided by (used in) financing activities              | 977     | (295 ) |
| Effect of exchange rate changes on cash and cash equivalents | (27 )   | 51     |
| Net change in cash and cash equivalents                      | (6,917) | (94 )  |
| Cash and cash equivalents, beginning of period               | 7,309   | 300    |
| Cash and cash equivalents, end of period                     | \$392   | \$206  |

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

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

|   | Preferred<br>Stock<br>Shares | Common<br>Stock<br>Par<br>Value | Common<br>Stock<br>Par<br>Value | Additional<br>Paid-In<br>Capital | Treasury<br>Stock | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Discovery,<br>Inc. Stockholders'<br>Equity | Noncontrolling<br>Interests | Total<br>Equity |
|---|------------------------------|---------------------------------|---------------------------------|----------------------------------|-------------------|----------------------|---|--|-----------------------------|-----------------|
| December 31, 2017   | 14                           | \$ -547                         | \$ 5                            | \$ 7,295                         | \$(6,737)         | \$ 4,632             | \$ (585 )                                     | \$ 4,610                                   | \$ —                        | \$ 4,610        |
| Cumulative effect of<br>accounting changes<br>(See Note 1)  | —                            | —                               | —                               | —                                | —                 | 33                   | (26 )   | 7  | —                           | 7               |
| Net income available to<br>Discovery, Inc. and<br>attributable to<br>noncontrolling interests   | —                            | —                               | —                               | —                                | —                 | 208                  | —   | 208  | 28                          | 236             |
| Other comprehensive<br>loss   | —                            | —                               | —                               | —                                | —                 | —                    | (179 )  | (179 )                                     | —                           | (179 )          |
| Share-based<br>compensation   | —                            | —                               | —                               | 52                               | —                 | —                    | —   | 52   | —                           | 52              |
| Tax settlements<br>associated with<br>share-based<br>compensation   | —                            | —                               | —                               | (17 )                            | —                 | —                    | —   | (17 )                                      | —                           | (17 )           |
| Issuance of stock and<br>noncontrolling interest<br>in connection with the<br>acquisition of Scripps<br>Networks Interactive,<br>Inc. ("Scripps<br>Networks") | —                            | —                               | 139                             | 1 3,217                          | —                 | —                    | —   | 3,218                                      | 1,700                       | 4,918           |
| Dividends paid to<br>noncontrolling interests   | —                            | —                               | —                               | —                                | —                 | —                    | —   | —  | (38 )                       | (38 )           |
| Issuance of stock in<br>connection with<br>share-based plans  | —                            | —                               | 4                               | — 43                             | —                 | —                    | —   | 43   | —                           | 43              |
| Redeemable<br>noncontrolling interest<br>adjustments to<br>redemption value   | —                            | —                               | —                               | —                                | —                 | (6 )                 | —   | (6 )                                       | —                           | (6 )            |
| June 30, 2018   | 14                           | \$ -690                         | \$ 6                            | \$ 10,590                        | \$(6,737)         | \$ 4,867             | \$ (790 )                                     | \$ 7,936                                   | \$ 1,690                    | \$ 9,626        |

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

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

NOTE 1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Description of Business

Discovery, Inc. ("Discovery" or the "Company") is a global media company that provides content across multiple distribution platforms, including pay-television ("pay-TV"), free-to-air ("FTA") and broadcast, various digital distribution platforms and content licensing agreements. The Company also operates a portfolio of digital direct-to-consumer products and production studios. As further discussed in Note 2, on March 6, 2018, the Company acquired Scripps Networks Interactive, Inc. ("Scripps Networks") and changed its name from "Discovery Communications, Inc." to "Discovery, Inc." The Company presents the following business units: 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 of a production studio and previously consolidated curriculum-based product and service offerings. (See Note 2.) Financial information for Discovery's reportable segments is discussed in Note 18.

Principles of Consolidation and Basis of Presentation

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

Unaudited Interim Financial Statements

These consolidated financial statements are unaudited; however, in the opinion of management, they reflect all adjustments consisting only of normal recurring adjustments necessary to state fairly the financial position, results of operations and cash flows for the periods presented in conformity with U.S. generally accepted accounting principles ("GAAP") applicable to interim periods. The results of operations for the interim periods presented are not necessarily indicative of results for the full year or future periods. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in Discovery's Annual Report on Form 10-K for the year ended December 31, 2017 (the "2017 Form 10-K").

Use of Estimates

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

Preferred Stock Exchange

Pursuant to the Preferred Share Exchange Agreement (the "Exchange Agreement") with Advance/Newhouse Programming Partnership ("Advance/Newhouse") on July 30, 2017, Discovery agreed to issue newly designated shares of Series A-1 and Series C-1 preferred stock in exchange for all outstanding shares of Discovery's Series A and Series C convertible participating preferred stock (see Note 9), historical basic and diluted earnings per share available to Series C-1 preferred stockholders, previously Series C preferred stockholders, has changed. The transactions

contemplated by the Exchange Agreement were completed on August 7, 2017. Prior to the Exchange Agreement, Series C convertible preferred stock was convertible into Series C common stock at a conversion rate of 2.0 shares of Series C common stock for each share of Series C preferred stock. Following the exchange, the Series C-1 preferred stock is convertible into Series C common stock at a conversion rate of 19.3648 shares of Series C common stock for each share of Series C-1 preferred stock. As such, the Company has retrospectively recast basic and diluted earnings per share information for Series C preferred stock for the three and six months ended June 30, 2017 in order to conform with per share earnings that would have been available consistent with the ratios provided for the Series C-1 preferred stock. (See Note 14.) The

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

Exchange Agreement did not impact historical basic and diluted earnings per share attributable to the Company's Series A, B and C common stockholders.

The table below sets forth the impact of the preferred stock modification to the Company's calculated basic earnings per share for the three and six months ended June 30, 2017.

|   | Three<br>Months<br>Ended<br>June 30,<br>2017 | Six<br>Months<br>Ended<br>June 30,<br>2017 |
|---|--|--|
| Pre-Exchange: Basic net income per share available to:  |  |  |
| Series A, B and C common stockholders                   | \$ 0.65                                      | \$ 1.02                                    |
| Series C-1 convertible preferred stockholders           | \$ 1.30                                      | \$ 2.04                                    |
| Post-Exchange: Basic net income per share available to: |  |  |
| Series A, B and C common stockholders                   | \$ 0.65                                      | \$ 1.02                                    |
| Series C-1 convertible preferred stockholders           | \$ 12.54                                     | \$ 19.65                                   |

#### Accounting and Reporting Pronouncements Adopted

##### Recognition and Measurement of Financial Instruments ("ASU 2016-01")

On January 1, 2018, the Company adopted new guidance that enhances the reporting model for financial instruments. The new guidance impacted the financial statements as follows:

Gains and losses on common stock investments with readily determinable fair values are now recorded in other expense, net. Previously, the Company recorded these gains and losses in other comprehensive income ("OCI"). The Company adopted this guidance on a modified retrospective basis and recorded a transition adjustment to reclassify accumulated other comprehensive income to retained earnings of \$26 million, net of tax, as of January 1, 2018. The new guidance eliminates the available-for-sale ("AFS") classification for common stock investments. (See Note 3 and Note 9.)

Upon adoption of ASU 2016-01, the Lionsgate Collar, as defined in Note 3, no longer receives the hedge accounting designation. There is no change to the manner in which movements in fair value of these instruments will be reflected in the financial statements, as gains and losses will continue to be recorded as a component of other expense, net on the consolidated statements of operations. (See Note 7.)

For equity interests without readily determinable fair values previously accounted for under the cost method, the Company has elected to apply the "measurement alternative" prospectively. Under this election, investments are recorded at cost, less impairment, adjusted for subsequent observable price changes as of the date that an observable transaction takes place. The Company will recognize observable price changes as adjustments to fair values of these investments as a component of other expense, net. (See Note 3 and Note 4.) In addition, companies are required to perform a qualitative assessment each reporting period to identify impairments under a single-step model. When a qualitative assessment indicates that an impairment exists, the Company will need to estimate the fair value of the investment and recognize in current earnings an impairment loss equal to the difference between the fair value and the carrying amount of the equity investment.

##### Revenue from Contracts with Customers

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers and ASU 340-40, Other Assets and Deferred Costs ("Topic 606"), which updates numerous requirements in U.S. GAAP, including industry-specific requirements, and provides companies with a single revenue recognition model for recognizing revenue from contracts with customers. The core principle of the new standard is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration

to which the company expects to be entitled in exchange for those goods or services. The guidance also addresses the accounting for costs incurred as part of obtaining or fulfilling a contract with a customer. The guidance in this Subtopic requires that costs of obtaining a contract be recognized as an asset and amortized as goods and services are transferred to the customer, as long as the costs are expected to be recovered.

On January 1, 2018, the Company adopted ASC Topic 606 using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts have not been adjusted and continue to be reported in accordance with our historic accounting under Topic 605.

Following the modified retrospective approach for the adoption of this accounting guidance, the Company recorded an increase to opening retained earnings of \$7 million as of January 1, 2018, due to the cumulative impact of adopting Topic 606. The

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

impact relates to the capitalization of sales commissions for long-term education-based services for our Education Business, which was disposed of as of April 30, 2018. (See Note 2.) For the three and six months ended June 30, 2018, the total amortization of capitalized sales commissions recorded as a component of cost of revenues was immaterial. There was no impact to revenue as a result of applying Topic 606 for the three and six months ended June 30, 2018. (See Note 11.)

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 Company adopted the new standard effective January 1, 2018, and there was no material impact on the consolidated financial statements upon adoption.

Clarifying the Definition of a Business

On January 1, 2018, the Company adopted new FASB guidance that amends the definition of a business and provides a threshold which must be considered to determine whether a transaction is an acquisition (or disposal) of an asset or a business. Under the previous accounting guidance, the minimum inputs and processes required for a "set" of assets and activities to meet the definition of a business was not specified. That lack of clarity led to broad interpretations of the definition of a business. Under the new guidance, when substantially all of the fair value of gross assets acquired is concentrated in a single asset (or group of similar assets), the assets acquired would not represent a business. In addition, in order to be considered a business, an acquisition would have to include at a minimum an input and a substantive process that together significantly contribute to the ability to create an output. This guidance also narrows the definition of outputs by more closely aligning it with how outputs are described in the revenue recognition guidance.

Compensation - Retirement Benefits

On March 10, 2017, the FASB issued new accounting guidance related to the presentation of net periodic pension costs and net periodic postretirement benefit costs, which requires employers sponsoring postretirement benefit plans to disaggregate the service cost component from the other components of net benefit cost. The standard also provides explicit guidance on how to present the service cost and other components of net benefit cost in the statement of operations and allows only the service cost component of net benefit cost to be eligible for capitalization. In conjunction with the acquisition of Scripps Networks, the Company evaluated the accounting for the Scripps Networks qualified defined benefit pension plan ("Pension Plan") and the Scripps Networks non-qualified unfunded Supplemental Executive Retirement Plan ("SERP"). As the Pension Plan was frozen effective December 31, 2009 and the Plan sponsor no longer grants credits to participants for service costs, the updated guidance on service costs is not applicable. The presentation as required by this guidance is reflected within the employee benefit plans footnote disclosures. (See Note 12.)

Accounting and Reporting Pronouncements Not Yet Adopted

Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

In February 2018, the FASB issued updated guidance which permits entities to reclassify tax effects stranded in accumulated other comprehensive income as a result of the 2017 Tax Cuts and Jobs Act ("TCJA") to retained earnings for each period in which the effect of the change is recorded. The update also requires entities to disclose their accounting policy for releasing income tax effects from accumulated other comprehensive income. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted. The Company is currently evaluating the impact that the pronouncement will have on our consolidated financial statements.

Targeted Improvements to Accounting for Hedging Activities

In August 2017, the FASB issued significant amendments to hedge accounting which expand the eligibility for hedge accounting to more financial and nonfinancial hedging strategies. The guidance is intended to align hedge accounting with companies' risk management strategies, simplify the application of hedge accounting, and increase transparency as to the scope and results of hedging programs. In addition, the guidance amends the presentation and disclosure requirements and changes how companies assess effectiveness. The updated guidance is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The Company expects to adopt the new guidance in the third quarter of 2018 with an effective date of January 1, 2018. Upon adoption, the Company will switch from the forward method to the spot method to assess hedge effectiveness for cross-currency swaps by de-designating and re-designating its net investment hedging relationships. The Company believes the spot method is an improved method for assessing effectiveness as it better matches the spot rate changes of the net investment. The Company will exclude the portion of the change in fair value related to cross-currency basis spreads from the assessment of hedge effectiveness and will amortize the excluded component into earnings over the life of the derivative. Previous gains and losses



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incurred under the forward method will remain in other comprehensive (loss) income under the currency translation adjustments component and will be reclassified to earnings when the net investment is sold or liquidated. The Company does not anticipate that the new standard will have a material impact on our consolidated financial statements, including the cumulative-effect adjustment required upon adoption.

Goodwill

Under the current accounting guidance, 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.

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 will recognize impairment charges 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 must be adopted on a prospective basis for the annual or any interim goodwill impairment tests beginning after December 15, 2019. The Company is currently evaluating the impact that the pronouncement will have on the consolidated financial statements.

Leases

In February 2016, the FASB issued guidance on leases that will require lessees to recognize almost all of their leases on the balance sheet by recording a right-of-use asset and liability. The new standard will be effective for reporting periods beginning after December 15, 2018, and the new accounting guidance may be applied at the beginning of the earliest comparative period presented in the year of adoption or at effective date without applying the provisions of the new guidance to comparative periods presented. 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. The method of transition will be determined when the Company has completed its evaluation.

Concentrations Risk

Customers

The Company has long-term contracts with distributors around the world. For the U.S. Networks segment, more than 96% of distribution revenue comes from the Company's largest 10 distributors in the U.S. For the International Networks segment, approximately 39% of distribution revenue comes from the Company's largest 10 distributors outside of the U.S. Agreements in place with the 10 largest cable and satellite operators in the U.S. Networks and International Networks expire at various times from 2018 through 2024. Although the Company seeks to renew its agreements with its distributors prior to expiration of a contract, a delay in securing a renewal that results in a service disruption, a failure to secure a renewal or a renewal on less favorable terms may have a material adverse effect on the Company's financial condition and results of operations. Not only could the Company experience a reduction in

distribution revenue, but it could also experience a reduction in advertising revenue, as viewership is impacted by affiliate subscriber levels.

No individual customer accounted for more than 10% of total consolidated revenues for the three and six months ended June 30, 2018 or 2017. As of June 30, 2018 and December 31, 2017, the Company's trade receivables did not represent a significant concentration of credit risk as the customers and markets in which the Company operates are varied and dispersed across many geographic areas.

#### Financial Institutions

Cash and cash equivalents are maintained with several financial institutions. The Company has deposits held with banks that exceed the amount of insurance provided on such deposits. Generally, these deposits may be redeemed upon demand and are maintained with financial institutions of reputable credit and, therefore, bear minimal credit risk. The Company performs periodic

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evaluations of the relative credit standing of the financial institutions and attempts to limit exposure with any one institution. Additionally, the Company has cash and cash equivalents held by its foreign subsidiaries. Under the TCJA, the Company is subject to U.S. taxes for the deemed repatriation of certain cash balances held by foreign corporations. The Company intends to continue to permanently reinvest these funds outside of the U.S., and current plans do not demonstrate a need to repatriate them to fund our U.S. operations.

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 June 30, 2018, the Company did not anticipate nonperformance by any of its counterparties.

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 by evaluating and monitoring 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 economic hedge of certain investments classified as common stock investments with readily determinable fair value, the Company has pledged shares as collateral to the derivative counterparty. (See Note 3.) The Company also has a limited number of arrangements where collateral is required to be posted in the instance that certain fair value thresholds are exceeded. As of June 30, 2018, \$3 million of collateral has been posted by the Company under these arrangements and classified as other noncurrent assets in the consolidated balance sheets. As of June 30, 2018, our exposure to counterparty credit risk included derivative assets with an aggregate fair value of \$58 million. (See Note 4.)

NOTE 2. ACQUISITIONS AND DISPOSITIONS

Acquisitions

Scripps Networks

On March 6, 2018, Discovery acquired Scripps Networks pursuant to the Agreement and Plan of Merger (the "Merger Agreement") by and among Discovery, Scripps Networks and Skylight Merger Sub, Inc. dated July 30, 2017 (the "acquisition of Scripps Networks"). The acquisition of Scripps Networks allows the Company to offer complementary brands with an extensive library of original programming to consumers and to create a scale player with the ability to compete for audiences and advertising revenue. The acquisition is intended to extend Scripps Networks' content to a broader international audience through Discovery's global distribution infrastructure. Finally, the acquisition of Scripps Networks is expected to create cost synergies for the Company.

The consideration paid for the acquisition of Scripps Networks consisted of (i) for Scripps Networks shareholders that did not make an election or elected to receive the mixed consideration, \$65.82 in cash and 1.0584 shares of Discovery Series C common stock for each Scripps Networks share, (ii) for Scripps Networks shareholders that elected to receive the cash consideration, \$90.00 in cash for each Scripps Networks share, (iii) for Scripps Networks shareholders that elected to receive the stock consideration, 3.9392 shares of Discovery Series C common stock for each Scripps Networks share, subject to the terms and conditions set forth in the Merger Agreement and (iv) transaction costs that Discovery paid for costs incurred by Scripps Networks in conjunction with the acquisition. The following table summarizes the components of the aggregate consideration paid for the acquisition of Scripps Networks (in millions of dollars and shares, except for per share amounts, share conversion ratio and stock option conversion ratio) as of March 6, 2018.



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|   |        |       |
|---|--------|-------|
| Scripps Networks equity   |        |       |
| Scripps Networks shares outstanding   | 131    |       |
| Cash consideration per Scripps Networks share   | \$     | 65.82 |
| Cash portion of consideration   | \$     | 8,590 |
| <br>  |        |       |
| Scripps Networks shares outstanding   | 131    |       |
| Share conversion ratio per Scripps Networks share   | 1.0584 |       |
| Discovery Series C common stock   | 138    |       |
| Discovery Series C common stock price per share   | \$     | 23.01 |
| Equity portion of consideration   | \$     | 3,179 |
| <br>  |        |       |
| Shares awarded under Scripps Networks share-based compensation programs                           | 3      |       |
| Scripps Networks share-based compensation awards converting to cash                               | 2      |       |
| Average cash consideration per share awarded less applicable exercise price                       | \$     | 46.90 |
| Cash portion of consideration   | \$     | 88    |
| <br>  |        |       |
| Scripps Networks share-based compensation awards  | 1      |       |
| Share-based compensation conversion ratio (based on intrinsic value per award)                    | 3      |       |
| Discovery Series C common stock issued (1) or share-based compensation converted (2)              | 3      |       |
| Average equity value (intrinsic value of Discovery Series C common stock or options to be issued) | \$     | 15.19 |
| Share-based compensation equity value   | \$     | 51    |
| Less: post-combination compensation expense   | \$     | (12 ) |
| Equity portion of consideration   | \$     | 39    |
|   | \$     | 117   |

Scripps Networks transaction costs  
paid by Discovery

|                          |    |        |
|--------------------------|----|--------|
| Total consideration paid | \$ | 12,013 |
|--------------------------|----|--------|

Balances reflect rounding of dollar and share amounts to millions, which may result in differences for recalculated standalone amounts compared with the amounts presented above.

The Company applied the acquisition method of accounting to Scripps Networks' business, whereby the excess of the fair value of the business over the fair value of identifiable net assets was allocated to goodwill. Goodwill reflects workforce and synergies expected from cost savings, operations and revenue enhancements of the combined company that are expected to result from the acquisition. The goodwill recorded as part of this acquisition has been provisionally allocated to the U.S. Networks and International Networks reportable segments in the amounts of \$5.6 billion and \$600 million, respectively, and is not amortizable for tax purposes.

The preliminary opening balance sheet is subject to adjustment based on final assessment of the fair values of certain acquired assets, principally intangibles, equity method investments, contingent liabilities and income taxes. The Company used discounted cash flow ("DCF") analyses, which represent Level 3 fair value measurements, to assess certain components of its purchase price allocation. The fair value of equity interests previously held by Scripps Networks was determined using the discounted cash flow and market value methods. The fair value for trade-names and trademarks was determined using an income approach based on the relief from royalty method; the remaining intangibles were determined using an income approach based on the excess earnings method. The fair value of interest-bearing debt was determined using publicly-traded prices. For the fair value estimates, the Company used: (i) projected discounted cash flows, (ii) historical and projected financial information, (iii) synergies including cost savings and (iv) attrition rates, as relevant, that market participants would consider when estimating fair values. As the Company continues to finalize the fair value of assets acquired and liabilities assumed, purchase price adjustments have been recorded and additional purchase price adjustments may be recorded during the measurement period. The Company reflects measurement period adjustments in the period in which the adjustments occur. The current period adjustments result from receipt of additional financial projections associated with certain equity method investments, contingent liability estimates and true-ups for estimated working capital balances. These adjustments did not impact the Company's statements of operations. The preliminary

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fair value of assets acquired and liabilities assumed, measurement period adjustments, as well as a reconciliation to consideration paid is presented in the table below (in millions).

|  | Preliminary<br>March 6,<br>2018 | Measurement<br>Period<br>Adjustments | Updated<br>Preliminary<br>March 6,<br>2018 |
|--|---------------------------------|--------------------------------------|--|
| Accounts receivable                                  | \$ 783                          | \$ —                                 | \$ 783                                     |
| Other current assets                                 | 421                             | (24 )                                | 397  |
| Content rights                                       | 1,088                           | —                                    | 1,088                                      |
| Property and equipment                               | 315                             | —                                    | 315  |
| Goodwill   | 6,003                           | 213                                  | 6,216                                      |
| Intangible assets                                    | 9,175                           | —                                    | 9,175                                      |
| Equity method investments, including note receivable | 870                             | (132 )                               | 738  |
| Other noncurrent assets                              | 111                             | 35                                   | 146  |
| Current liabilities assumed                          | (494 )                          | (133 )                               | (627 )                                     |
| Debt assumed   | (2,481 )                        | —                                    | (2,481 )                                   |
| Deferred income taxes                                | (1,695 )                        | 8                                    | (1,687 )                                   |
| Other noncurrent liabilities                         | (383 )                          | 33                                   | (350 )                                     |
| Noncontrolling interests                             | (1,700 )                        | —                                    | (1,700 )                                   |
| Total consideration paid                             | \$ 12,013                       | \$ —                                 | \$ 12,013                                  |

The table below presents a summary of intangible assets acquired and weighted average estimated useful life of these assets.

|                                  | Fair<br>Value | Weighted Average Useful Life in Years |
|----------------------------------|---------------|---------------------------------------|
| Trademarks and trade names       | \$ 1,225      | 10                                    |
| Advertiser relationships         | 4,995         | 10                                    |
| Advertising backlog              | 280           | 1                                     |
| Affiliate relationships          | 2,455         | 12                                    |
| Broadcast licenses               | 220           | 6                                     |
| Total intangible assets acquired | \$ 9,175      |                                       |

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OWN

On November 30, 2017, the Company acquired from Harpo, Inc. ("Harpo") a controlling interest in the Oprah Winfrey Network ("OWN"), increasing Discovery's ownership from 49.50% to 73.75%. OWN is a pay-TV network and website that provides adult lifestyle and entertainment content, which is focused on African American viewers. Discovery paid \$70 million in cash and recognized a gain of \$33 million to account for the difference between the carrying value and the fair value of the previously held 49.50% equity method investment. The fair value of the equity interest in the network is subject to the impact of the note payable to Discovery. Discovery consolidated OWN under the VIE consolidation model upon closing of the transaction. Following the acquisition of the incremental equity interest and change to governance provisions, the Company has determined that it is now the primary beneficiary of OWN as Discovery obtained control of the Board of Directors and operational rights that significantly impact the economic performance of the business such as programming and marketing, and selection of key personnel. As a result, the accounting for OWN was changed from an equity method investment to a consolidated subsidiary. As the primary beneficiary, Discovery includes OWN's assets, liabilities and results of operations in the Company's consolidated financial statements. As of June 30, 2018, the carrying amounts of assets and liabilities of the consolidated VIE were \$740 million and \$276 million, respectively.

The Company applied the acquisition method of accounting to OWN's business, whereby the excess of the fair value of the business over the fair value of identifiable net assets was allocated to goodwill. The goodwill reflects the workforce and synergies expected from broader exposure to the self-discovery and self-improvement entertainment sector. The goodwill recorded as part of this acquisition is included in the U.S. Network reportable segment and is not amortizable for tax purposes. Intangible assets consist of advertiser backlog, advertiser relationships and affiliate relationships with a weighted average estimated useful life of 9 years.

The preliminary opening balance sheet is subject to adjustment based on final assessment of the fair values of contingent liabilities. 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 intangibles was determined using an income approach based on the excess earnings method. For the fair value estimates, the Company used: (i) projected discounted cash flows, (ii) historical and projected financial information, (iii) synergies including cost savings and (iv) attrition rates, as relevant, that market participants would consider when estimating fair values. The Company will reflect measurement period adjustments, if any, in the period in which the adjustment occurs. The preliminary fair value of assets acquired and liabilities assumed, as well as a reconciliation to cash consideration transferred is presented in the table below (in millions).

|   | Preliminary<br>November<br>30, 2017 |
|---|-------------------------------------|
| Intangible assets                                     | \$ 295                              |
| Content rights  | 176                                 |
| Accounts receivable                                   | 84                                  |
| Other assets  | 26                                  |
| Other liabilities                                     | (230 )                              |
| Net assets acquired                                   | \$ 351                              |
| Goodwill  | 136                                 |
| Remeasurement gain on previously held equity interest | (33 )                               |
| Carrying value of previously held equity interest     | (329 )                              |
| Redeemable noncontrolling interest                    | (55 )                               |
| Cash consideration transferred                        | \$ 70                               |

Harpo has the right to require the Company to purchase its remaining noncontrolling interest in OWN during 90-day windows beginning on July 1, 2018 and every two and half years thereafter through January 1, 2026. As Harpo's put



right is outside the Company's control, Harpo's noncontrolling interest is presented as redeemable noncontrolling interest outside of permanent equity on the Company's consolidated balance sheet. (See Note 8.) As of the issuance date of these financial statements, Harpo has not exercised its put right.

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The Enthusiast Network, Inc.

On September 25, 2017, the Company contributed its linear cable network focused on cars and motor sports, Velocity, to a new joint venture Motor Trend Group, LLC ("MTG") formally VTEN with GoldenTree Asset Management L.P. ("GoldenTree"). GoldenTree's contributions to the joint venture included businesses from The Enthusiast Network, Inc. ("TEN"), primarily MotorTrend.com, the Motor Trend YouTube channel and the Motor Trend OnDemand OTT service. TEN did not contribute its print businesses to the joint venture. The joint venture has a portfolio of digital content, social groups, live events and original content focused on the automotive audience. In exchange for their contributions, Discovery and GoldenTree received 67.5% and 32.5% ownership of the new joint venture, respectively. Upon the closing of the transaction, Discovery consolidated the joint venture under the voting interest consolidation model. As the Company controlled Velocity and continues to control Velocity after the transaction, the change in the value of the Company's ownership interest was accounted for as an equity transaction and no gain or loss was recognized in the Company's consolidated statements of operations, but was reflected as a component of additional paid-in capital in the consolidated statement of equity. The Company applied the acquisition method of accounting to TEN's contributed businesses, whereby the excess of the fair value of the contributed business over the fair value of identifiable net assets was allocated to goodwill. The goodwill reflects the workforce and synergies expected from broader exposure to the automotive entertainment sector. The goodwill recorded as part of this acquisition is included in the U.S. Network reportable segment and is not amortizable for tax purposes. Intangible assets primarily consist of trade names, licensing agreements and customer relationships with a weighted average estimated useful life of 16 years.

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 and liabilities assumed is presented in the table below (in millions).

|                                   | Preliminary Measurement<br>September<br>25, 2017 | Period<br>Adjustments | Final<br>September<br>25, 2017 |
|-----------------------------------|--|-----------------------|--------------------------------|
| Goodwill                          | \$ 59  | \$ 16                 | \$ 75                          |
| Intangible assets                 | 71   | (18 )                 | 53                             |
| Property plant and equipment, net | 16   | 1                     | 17                             |
| Other assets acquired             | 6  | —                     | 6                              |
| Liabilities assumed               | (8 )   | 1                     | (7 )                           |
| Net assets acquired               | \$ 144   | \$ —                  | \$ 144                         |

Discovery has a fair value call right exercisable during 30-day windows beginning on each of March 25, 2021, September 25, 2022 and March 25, 2024, that requires Discovery to either purchase all of GoldenTree's noncontrolling 32.5% interest in the joint venture at fair value or participate in an initial public offering for the joint venture. GoldenTree's 32.5% noncontrolling interest in the joint venture is presented as redeemable noncontrolling interest outside of permanent equity on the Company's consolidated balance sheet. The opening balance sheet value of redeemable noncontrolling interest recognized upon closing was \$82 million based on GoldenTree's ownership interest in the book value of Velocity and fair value of GoldenTree's contribution. The balance was subsequently increased by \$38 million to adjust the redemption value to fair value of \$120 million. (See Note 8.)

Other

On March 2, 2018, the Company acquired a sports broadcaster in Turkey for \$5 million. On September 1, 2017, the Company exercised its call right for the remaining outstanding equity in an equity method investment in a FTA company in Poland for \$4 million. The operations of these entities were consolidated upon their acquisition dates.

Pro Forma Financial Information

The following unaudited pro forma information has been presented as if the acquisition of Scripps Networks occurred on January 1, 2017 and the OWN and MTG transactions occurred on January 1, 2016. The information is

based on the historical results of operations of the acquired businesses, adjusted for:

1. The allocation of purchase price and related adjustments, including adjustments to amortization expense related to the fair value of intangible assets acquired and the recognition of the noncontrolling interests;
2. Impacts of debt financing, including interest for debt issued and amortization associated with the fair value adjustments of debt assumed;

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The exclusion of acquisition-related costs incurred during the six months ended June 30, 2018 and allocation of all 3. acquisition-related costs to the six months ended June 30, 2017 (no adjustments required for the three months ended June 30, 2018 or 2017).

4. Associated tax-related impacts of adjustments; and

5. Changes to align accounting policies

The pro forma results do not necessarily represent what would have occurred if the transactions had taken place on January 1, 2017 for Scripps Networks or January 1, 2016 for OWN or MTG, nor do they represent the results that may occur in the future. 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). The following table presents the Company's pro forma combined revenues and net income (in millions, except per share value).

|   | Three Months Ended June 30, 2018 |         | Six Months Ended June 30, 2018 |         |
|---|----------------------------------|---------|--------------------------------|---------|
|   | 2018                             | 2017    | 2018                           | 2017    |
| Revenues                                | \$2,845                          | \$2,769 | \$5,774                        | \$5,338 |
| Net income available to Discovery, Inc. | 260                              | 424     | 348                            | 583     |
| Net income per share - basic            | 0.36                             | 0.59    | 0.48                           | 0.81    |
| Net income per share - diluted          | 0.36                             | 0.59    | 0.48                           | 0.81    |

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 (in millions).

|   | Three Months Ended June 30, 2018 | Six Months Ended June 30, 2018 |
|---|----------------------------------|--------------------------------|
| Revenues:                               |                                  |                                |
| Distribution                            | \$ 286                           | \$ 394                         |
| Advertising                             | 742                              | 986                            |
| Other                                   | 38                               | 66                             |
| Total revenues                          | \$ 1,066                         | \$ 1,446                       |
| Net income available to Discovery, Inc. | \$ 78                            | \$ 28                          |

Dispositions

Education Business

On April 30, 2018, the Company sold an 88% controlling equity stake in its Education Business to Francisco Partners for a sale price of \$113 million. The Company recorded a gain of \$84 million based on net assets disposed of \$44 million, including \$40 million of goodwill. The impact of the Education Business on the Company's income before income taxes was a loss of \$5 million and \$6 million for the three and six months ended June 30, 2018, respectively. Discovery retained a 12% ownership interest in the Education Business, which is accounted for as an equity method investment. (See Note 3.) Discovery has long-term trade name license agreements with the Education Business that are royalty arrangements at fair value.

Raw and Betty Studios, LLC

On April 28, 2017, the Company sold Raw and Betty to All3Media. All3Media is a U.K. based television, film and digital production and distribution company. The Company owns 50% of All3Media and accounts for its investment

in All3Media under the equity method of accounting. The Company recorded a loss of \$4 million for the disposition of these businesses for the three and six months ended June 30, 2017. The loss on disposition of Raw and Betty resulted from the disposition of net assets of \$38 million, including \$30 million of goodwill. The impact to the Company's income before income taxes for Raw and Betty through

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the date of sale were losses of \$3 million and \$4 million for the three and six months ended June 30, 2017, respectively. Raw and Betty were components of the studios operating segment reported with Education and Other. The Company determined that these disposals did not meet the definition of a discontinued operation because they do not represent a strategic shift that has a significant impact on the Company's operations and consolidated financial results.

NOTE 3. INVESTMENTS

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

| Category   | Balance Sheet Location           | June 30, December 31, |          |
|--|----------------------------------|-----------------------|----------|
|  |                                  | 2018                  | 2017     |
| Time deposits  | Cash and cash equivalents        | \$—                   | \$ 1,305 |
| Trading securities:  |                                  |                       |          |
| Money market funds   | Cash and cash equivalents        | 31                    | 2,707    |
| Mutual funds   | Prepaid and other current assets | 37                    | 182      |
| Mutual funds   | Other noncurrent assets          | 198                   | —        |
| Equity method investments:                                     |                                  |                       |          |
| Equity investments   | Equity method investment         | 927                   | 335      |
| Note receivable  | Equity method investment         | 96                    | —        |
| Equity Investments:  |                                  |                       |          |
| Common stock investments with readily determinable fair values | Other noncurrent assets          | 121                   | 164      |
| Equity investments without readily determinable fair value     | Other noncurrent assets          | 384                   | 295      |
| Total investments  |                                  | \$1,794               | \$ 4,988 |

Money Market Funds, Time Deposits and U.S. Treasury Securities

During 2017, the Company issued \$6.8 billion in senior notes to fund the March 6, 2018 acquisition of Scripps Networks. (See Note 2 and Note 6.) A portion of the proceeds were invested in various short-term investments prior to the acquisition of Scripps Networks and were classified as cash and cash equivalents on the consolidated balance sheet. As of June 30, 2018, the decrease in these funds is the result of funding the acquisition of Scripps Networks.

Mutual Funds

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

Equity Method Investments

The Company makes investments that support its underlying business strategy and enable it to enter new markets and develop programming. Certain of the Company's equity method investments are VIEs, for which the Company is not the primary beneficiary. As of June 30, 2018, the Company's maximum exposure for all its unconsolidated VIEs including the investment carrying values, unfunded contractual commitments, and guarantees made on behalf of VIEs was approximately \$501 million. The Company's maximum estimated exposure excludes the non-contractual future funding of VIEs. The aggregate carrying values of these VIE investments were \$458 million and \$181 million as of June 30, 2018 and December 31, 2017, respectively. The Company recognized its portion of VIE operating results with losses of \$39 million and \$35 million for the three months ended June 30, 2018 and 2017, respectively, and net losses generated by VIEs of \$50 million and \$78 million for the six months ended June 30, 2018 and 2017.

UKTV

In connection with the acquisition of Scripps Networks, the Company acquired a 50% ownership interest in UKTV, a British multi-channel broadcaster jointly owned with BBC Studios ("BBC"). UKTV was formed on March 26, 1992, through a joint venture arrangement between BBC and Virgin Media Inc. ("VMED"). On August 11, 2011, Scripps Networks acquired VMED's 50% equity interest in UKTV along with a note receivable for debt instruments provided by VMED to UKTV. The Company has determined that UKTV is a VIE as the entity is unable to fund its activities

without additional subordinated financial support provided by the note receivable. While the Company and BBC have equal voting rights in the management committee, the governing body of UKTV, power is not shared because BBC holds operational rights related to programming and creative

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development that significantly impact UKTV's economic performance. Therefore, Discovery is not the primary beneficiary. The Company determined that its 50% equity interest in UKTV gives the Company the ability to exercise significant influence over the entity's operating and financial policies. Accordingly, the Company accounts for its investment in UKTV using the equity method. As of June 30, 2018, the Company's investment in UKTV totaled \$309 million, including a note receivable of \$96 million.

nC+  
 In connection with the acquisition of Scripps Networks, the Company acquired a 32% ownership interest in nC+, a Polish satellite distributor of television content. nC+ is controlled by Group Canal+ S.A, a French broadcaster. The Company applies the equity method of accounting to its 32% investment in nC+ ordinary shares, which provide the ability to exercise significant influence over the operating and financial policies of nC+. The Company's investment in nC+ totaled \$217 million as of June 30, 2018.

#### Renewable Energy Investments

During the six months ended June 30, 2018 and 2017, the Company invested \$17 million and \$196 million in limited liability companies that sponsor renewable energy projects related to solar energy, respectively. The Company expects these investments to result in tax benefits that reduce the Company's future tax liability, and cash flows from the operations of the investees. These investments are considered VIEs of the Company. The Company accounts for these investments under the equity method of accounting. While the Company possesses rights that allow it to exercise significant influence over the investments, 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 or control solar panel assets. Once a stipulated return on investment is earned by the Company, the investment allocations to the Company are significantly reduced. Accordingly, the Company applies the Hypothetical Liquidation at Book Value ("HLBV") methodology for allocating earnings, which is a generally accepted method under the equity method of accounting when a substantive profit sharing arrangement exists.

The following table presents renewable energy investments losses and associated tax benefits (in millions).

|                                      | Consolidated Statements of Operations<br>Classification | Three<br>Months<br>Ended June<br>30, |        | Six Months<br>Ended June<br>30, |         |
|--------------------------------------|---|--------------------------------------|--------|---------------------------------|---------|
|                                      |   | 2018                                 | 2017   | 2018                            | 2017    |
| Renewable Energy Investments         |   |                                      |        |                                 |         |
| Loss on renewable energy investments | Loss from equity investees, net                         | \$(8)                                | \$(43) | \$(16)                          | \$(126) |
| Tax benefit                          |   |                                      |        |                                 |         |
| Equity passive loss                  | Income tax expense                                      | \$2                                  | \$15   | \$4                             | \$46    |
| Investment tax credits               | Income tax expense                                      | 3                                    | 41     | 3                               | 66      |
| Total tax benefit                    |   | \$5                                  | \$56   | \$7                             | \$112   |

The Company accounts for investment tax credits utilizing the flow through method. As of June 30, 2018 and December 31, 2017, the Company's carrying value of renewable energy investments was \$94 million and \$98 million, respectively. The Company has \$4 million of future funding commitments for these investments as of June 30, 2018, which are cancelable under limited circumstances. The Company has concluded that losses incurred on these investments to-date are not indicative of an other-than-temporary impairment due to the nature of these investments. Losses in the early stages of investments in companies that sponsor renewable energy projects are not uncommon, and the Company expects improved performance from these investments in future periods.

#### Other Equity Method Investments

At June 30, 2018 and December 31, 2017, the Company's other equity method investments included production companies such as All3Media, a Russian cable television business, Mega TV in Chile and certain joint ventures in



Canada. Other equity method investments acquired in conjunction with the acquisition of Scripps Networks include joint ventures in Canada, and HGTV and Food Network Magazines. The Company recorded an impairment loss of \$19 million for the three months ended June 30, 2018 and \$24 million for the six months ended June 30, 2018 because the carrying amount of certain investments was not recoverable. The impairment loss is reflected as a component of loss from equity investees on the Company's consolidated statement of operations.

**Investor Basis Differential**

With the exception of the OWN investment prior to the Company's November 30, 2017 consolidation (see Note 2), UKTV, nC+ and certain investments in renewable energy projects for which the Company uses the HLBV methodology for allocating

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earnings, the carrying values of the Company's remaining equity method investments are consistent with its ownership in the underlying net assets of the investees. A portion of the purchase prices associated with these investments was attributed to amortizable intangible assets, which are included in their carrying values. Earnings from our equity investees were reduced by the amortization of these intangibles of \$13 million during the period from March 6, 2018 to June 30, 2018. Amortization that reduces the Company's equity in earnings of equity method investees for future periods is expected to be approximately \$348 million.

Common Stock Investments with Readily Determinable Fair Value

The Company owns 5 million shares of common stock, or approximately 3%, of Lions Gate Entertainment Corp. ("Lionsgate"), an entertainment company. Lionsgate operates in the motion picture production and distribution, television programming and syndication, home entertainment and digital distribution business. Upon the adoption of ASU 2016-01, the shares are measured at fair value, with realized gains and losses recorded in other expense, net as the shares have a readily determinable fair value and the Company has the intent to retain the investment.

The accumulated amounts associated with the components of the Company's common stock investments with readily determinable fair values, which are included in other non-current assets, are summarized in the table below (in millions).

|  | June 30, 2018 | December 31, 2017 |
|--|---------------|-------------------|
| Cost   | \$ 195        | \$ 195            |
| Accumulated change in the value of:  |               |                   |
| Equity securities recognized in other expense, net   | (44 )         | (1 )              |
| Unhedged equity securities recorded in other comprehensive income <sup>(a)</sup>               | —             | 32                |
| Reclassification of accumulated other comprehensive income to retained earnings <sup>(a)</sup> | 32            | —                 |
| Other-than-temporary impairment  | (62 )         | (62 )             |
| Carrying value   | \$ 121        | \$ 164            |

<sup>(a)</sup> As of January 1, 2018, upon adoption of ASU 2016-01, the Company recorded a transition adjustment to reclassify accumulated other comprehensive income associated with Lionsgate shares in the amount of \$32 million pre-tax (\$26 million, net of tax) to retained earnings. Previously, amounts were recorded as a component of other comprehensive income.

The Company hedged 50% of the Lionsgate shares with an equity collar (the "Lionsgate Collar") and pledged those shares as collateral to the derivative counterparty. Prior to adoption of ASU 2016-01, when the share price of Lionsgate was within the boundaries of the collar and the hedge had no intrinsic value, the Company recorded the gains or losses on the Lionsgate shares as a component of other comprehensive (loss) income. When the share price of the Lionsgate shares was outside the boundaries of the collar and the hedge had intrinsic value, the Company recorded the gains or losses resulting from a change in the fair value of the hedged portion of Lionsgate shares that correspond to the change in intrinsic value of the hedge as a component of other expense, net. Upon adoption of ASU 2016-01, the Lionsgate Collar no longer receives the hedge accounting designation and all changes to the fair value of the Lionsgate Collar are reflected in the financial statements as gains and losses as a component of other expense, net on the consolidated statements of operations. (See Note 1, Note 4 and Note 7.)

In 2016, the Company determined that the decline in value of equity 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 had 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 was included as a component of other expense, net for the quarter ended September 30, 2016.

Equity investments without readily determinable fair values assessed under the measurement alternative

The Company's equity investments without readily determinable fair values assessed under the measurement alternative as of June 30, 2018 primarily include its 42% minority interest in Group Nine Media recorded at \$212 million. Discovery has significant influence through its voting rights in the preferred stock of Group Nine Media, however, this ownership interest has liquidation preferences that do not allow the investment to meet the definition of in-substance common stock. The Company accounts for its ownership interest in Group Nine Media as an equity investment without readily determinable fair values assessed under the measurement alternative. The Company also has similar investments in an educational website, an electric car racing series and certain investments to enhance the Company's digital distribution strategies, such as a \$35 million investment in Refinery29. The

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Company completed its quarterly qualitative assessment and concluded that its equity investments without readily determinable fair values had no indicators that a change in fair value had taken place as of June 30, 2018.

NOTE 4. FAIR VALUE MEASUREMENTS

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

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

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

| Category   | Balance Sheet Location                    | June 30, 2018 |               |                  |
|--|---|---------------|---------------|------------------|
|  |   | Level 1       | Level 2       | Level 3 Total    |
| <b>Assets</b>  |   |               |               |                  |
| Trading securities:                                      |   |               |               |                  |
| Money market funds                                       | Cash and cash equivalents                 | \$31          | \$ —          | \$ —\$31         |
| Mutual funds   | Prepaid expenses and other current assets | 37            | —             | — 37             |
| Mutual funds   | Other noncurrent assets                   | 198           | —             | — 198            |
| Equity investments with readily determinable fair value: |   |               |               |                  |
| Common stock   | Other noncurrent assets                   | 121           | —             | — 121            |
| Derivatives:   |   |               |               |                  |
| Cash flow hedges:  |   |               |               |                  |
| Foreign exchange   | Prepaid expenses and other current assets | —             | 28            | — 28             |
| Net investment hedges:                                   |   |               |               |                  |
| Cross-currency swaps                                     | Other noncurrent assets                   | —             | 6             | — 6              |
| No hedging designation: <sup>(a)</sup>                   |   |               |               |                  |
| Equity (Lionsgate Collar)                                | Other noncurrent assets                   | —             | 24            | — 24             |
| Assets held for sale                                     | Assets held for sale                      | —             | 68            | — 68             |
| <b>Total</b>   |   | <b>\$387</b>  | <b>\$ 126</b> | <b>\$ —\$513</b> |
| <b>Liabilities</b>                                       |   |               |               |                  |
| Deferred compensation plan                               | Accrued liabilities                       | \$37          | \$ —          | \$ —\$37         |
| Deferred compensation plan                               | Other noncurrent liabilities              | 208           | —             | — \$208          |
| Derivatives:   |   |               |               |                  |
| Cash flow hedges:  |   |               |               |                  |
| Foreign exchange   | Accrued liabilities                       | —             | 3             | — 3              |
| Net investment hedges:                                   |   |               |               |                  |
| Cross-currency swaps                                     | Accrued liabilities                       | —             | 17            | — 17             |
| Cross-currency swaps                                     | Other noncurrent liabilities              | —             | 98            | — 98             |
| No hedging designation:                                  |   |               |               |                  |
| Cross-currency swaps                                     | Accrued liabilities                       | —             | 1             | — 1              |
| Cross-currency swaps                                     | Other noncurrent liabilities              | —             | 3             | — 3              |
| <b>Total</b>   |   | <b>\$245</b>  | <b>\$ 122</b> | <b>\$ —\$367</b> |



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| Category  | Balance Sheet Location                    | December 31, 2017 |         |         | Total    |
|---|---|-------------------|---------|---------|----------|
|   |   | Level 1           | Level 2 | Level 3 |          |
| Assets  |   |                   |         |         |          |
| Cash equivalents:   |   |                   |         |         |          |
| Time deposits   | Cash and cash equivalents                 | \$—               | \$1,305 | \$—     | -\$1,305 |
| Trading securities:   |   |                   |         |         |          |
| Money market funds  | Cash and cash equivalents                 | 2,707             | —       | —       | 2,707    |
| Mutual funds  | Prepaid expenses and other current assets | 182               | —       | —       | 182      |
| Equity investments with readily determinable fair value: <sup>(a)</sup> |   |                   |         |         |          |
| Common stock  | Other noncurrent assets                   | 82                | —       | —       | 82       |
| Common stock - pledged  | Other noncurrent assets                   | 82                | —       | —       | 82       |
| Derivatives:  |   |                   |         |         |          |
| Cash flow hedges:   |   |                   |         |         |          |
| Foreign exchange  | Prepaid expenses and other current assets | —                 | 7       | —       | 7        |
| Net investment hedges:  |   |                   |         |         |          |
| Cross-currency swaps  | Other noncurrent assets                   | —                 | 3       | —       | 3        |
| Foreign exchange  | Prepaid expenses and other current assets | —                 | 2       | —       | 2        |
| Fair value hedges: <sup>(a)</sup>                                       |   |                   |         |         |          |
| Equity (Lionsgate Collar)   | Other noncurrent assets                   | —                 | 13      | —       | 13       |
| Total   |   | \$3,053           | \$1,330 | \$—     | -\$4,383 |
| Liabilities   |   |                   |         |         |          |
| Deferred compensation plan  | Accrued liabilities                       | \$182             | \$—     | \$—     | -\$182   |
| Derivatives:  |   |                   |         |         |          |
| Cash flow hedges:   |   |                   |         |         |          |
| Foreign exchange  | Accrued liabilities                       | —                 | 12      | —       | 12       |
| Net investment hedges:  |   |                   |         |         |          |
| Cross-currency swaps  | Accrued liabilities                       | —                 | 13      | —       | 13       |
| Cross-currency swaps  | Other noncurrent liabilities              | —                 | 98      | —       | 98       |
| Foreign exchange  | Accrued liabilities                       | —                 | 8       | —       | 8        |
| No hedging designation:   |   |                   |         |         |          |
| Credit contracts  | Other noncurrent liabilities              | —                 | 1       | —       | 1        |
| Cross-currency swaps  | Other noncurrent liabilities              | —                 | 6       | —       | 6        |
| Total   |   | \$182             | \$138   | \$—     | -\$320   |

<sup>(a)</sup> Prior to January 1, 2018, and the adoption of ASU 2016-01, the Company applied hedge accounting to the Lionsgate Collar. (See Note 1 and Note 7.)

Cash obtained as a result of the issuance of senior notes to fund a portion of the purchase price of the acquisition of Scripps Networks was invested in money market funds, time deposit accounts, U.S. Treasury securities and highly liquid short-term instruments that qualify as cash and cash equivalents. Any accrued interest received after maturity was reinvested into additional short-term instruments. (See Note 3.) The Company values cash and cash equivalents using quoted market prices. As of June 30, 2018, following the acquisition of Scripps Networks, the Company no longer holds these investments as these investments were liquidated and utilized in the acquisition of Scripps

Networks.

The fair value of Level 1 trading securities was determined by reference to the quoted market price per share in active markets multiplied by the number of shares held without consideration of transaction costs. (See Note 3.) The fair value of the deferred compensation plan liability was determined based on the fair value of the related investments elected by employees. Changes in the fair value of the investments are offset by changes in the fair value of the deferred compensation obligation. (See Note 3.)

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Common stock investments with readily determinable fair values are recorded by reference to the quoted market price per unit in active markets multiplied by the number of units held without consideration of transaction costs. (See Note 3.) As of January 1, 2018, the Company adopted ASU 2016-01, which eliminates the AFS classification. (See Note 1 and Note 3.)

Derivative financial instruments are comprised of foreign exchange, interest rate, credit and equity contracts. (See Note 7.) The fair value of Level 2 derivative financial instruments was determined using a market-based approach. On January 9, 2018, the Company announced plans to relocate its global headquarters from Silver Spring, Maryland ("the Silver Spring property") to New York City in 2019. In June 2018, the Company entered into a lease agreement for space in New York, which will serve as Discovery's new corporate headquarters. As of June 30, 2018, the Company determined that the Silver Spring property, which is reflected as a component of corporate and inter-segment eliminations for segment reporting, met the held for sale criteria as defined by GAAP and has been separately stated on the Company's consolidated balance sheet as a noncurrent asset at its estimated fair value less cost to sell. As a result of the change in classification, the Company recorded an impairment loss of \$12 million for the three and six months ended June 30, 2018, which is reflected as a component of depreciation and amortization. The fair value was determined using a market approach based on a non-binding purchase and sale agreement to sell property and was classified as a Level 2 measurement.

In addition to the financial instruments listed in the tables above, the Company holds other financial instruments, including cash deposits, accounts receivable, accounts payable, borrowings under the revolving credit facility and senior notes. The carrying values for such financial instruments, other than the senior notes, each approximated their fair values as of June 30, 2018 and December 31, 2017. The estimated fair value of the Company's outstanding senior notes using quoted prices from over the counter markets, considered Level 2 inputs, was \$16.6 billion and \$14.8 billion as of June 30, 2018 and December 31, 2017, respectively.

NOTE 5. CONTENT RIGHTS

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

|                                    | June 30, December 31, |          |
|------------------------------------|-----------------------|----------|
|                                    | 2018                  | 2017     |
| Produced content rights:           |                       |          |
| Completed                          | \$5,264               | \$ 4,355 |
| In-production                      | 750                   | 442      |
| Coproduced content rights:         |                       |          |
| Completed                          | 772                   | 745      |
| In-production                      | 71                    | 27       |
| Licensed content rights:           |                       |          |
| Acquired                           | 972                   | 1,070    |
| Prepaid <sup>(a)</sup>             | 167                   | 181      |
| Content rights, at cost            | 7,996                 | 6,820    |
| Accumulated content rights expense | (4,380 )              | (4,197 ) |
| Total content rights, net          | 3,616                 | 2,623    |
| Current portion                    | (358 )                | (410 )   |
| Noncurrent portion                 | \$3,258               | \$ 2,213 |

<sup>(a)</sup> Prepaid licensed content rights includes payments for rights to the Olympic games of \$52 million that are reflected as noncurrent content rights and \$83 million that are reflected as current content rights assets on the consolidated balance sheet as of June 30, 2018 and December 31, 2017, respectively.





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Content expense consisted of the following (in millions).

|                          | Three<br>Months<br>Ended June<br>30, |       | Six Months<br>Ended June 30, |         |
|--------------------------|--------------------------------------|-------|------------------------------|---------|
|                          | 2018                                 | 2017  | 2018                         | 2017    |
| Content amortization     | \$728                                | \$446 | \$1,478                      | \$901   |
| Other production charges | 112                                  | 76    | 272                          | 141     |
| Content impairments      | 104                                  | 6     | 182                          | 9       |
| Total content expense    | \$944                                | \$528 | \$1,932                      | \$1,051 |

Content expense is generally a component of costs of revenues on the consolidated statements of operations. Content impairments for 2018 were mainly due to the strategic realignment of content following the acquisition of Scripps Networks and are primarily reflected in restructuring and other charges. For the three and six months ended June 30, 2018, content impairments of \$100 million and \$177 million, respectively, were due to restructuring events following the acquisition of Scripps Networks. No content impairments were recorded as a component of restructuring and other during the three or six months ended June 30, 2017.

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## NOTE 6. DEBT

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

|  | June 30,<br>2018 | December 31,<br>2017 |
|--|------------------|----------------------|
| 5.625% Senior notes, semi-annual interest, due August 2019                     | \$411            | \$ 411               |
| 2.200% Senior notes, semi-annual interest, due September 2019                  | 500              | 500                  |
| Floating rate notes, quarterly interest, due September 2019                    | 400              | 400                  |
| 2.750% Senior notes, semi-annual interest, due November 2019                   | 500              | —                    |
| 2.800% Senior notes, semi-annual interest, due June 2020                       | 600              | —                    |
| 5.050% Senior notes, semi-annual interest, due June 2020                       | 789              | 789                  |
| 4.375% Senior notes, semi-annual interest, due June 2021                       | 650              | 650                  |
| 2.375% Senior notes, euro denominated, annual interest, due March 2022         | 347              | 358                  |
| 3.300% Senior notes, semi-annual interest, due May 2022                        | 500              | 500                  |
| 3.500% Senior notes, semi-annual interest, due June 2022                       | 400              | —                    |
| 2.950% Senior notes, semi-annual interest, due March 2023                      | 1,200            | 1,200                |
| 3.250% Senior notes, semi-annual interest, due April 2023                      | 350              | 350                  |
| 3.800% Senior notes, semi-annual interest, due March 2024                      | 450              | 450                  |
| 2.500% Senior notes, sterling denominated, annual interest, due September 2024 | 522              | 538                  |
| 3.900% Senior notes, semi-annual interest, due November 2024                   | 500              | —                    |
| 3.450% Senior notes, semi-annual interest, due March 2025                      | 300              | 300                  |
| 3.950% Senior notes, semi-annual interest, due June 2025                       | 500              | —                    |
| 4.900% Senior notes, semi-annual interest, due March 2026                      | 700              | 700                  |
| 1.900% Senior notes, euro denominated, annual interest, due March 2027         | 694              | 717                  |
| 3.950% Senior notes, semi-annual interest, due March 2028                      | 1,700            | 1,700                |
| 5.000% Senior notes, semi-annual interest, due September 2037                  | 1,250            | 1,250                |
| 6.350% Senior notes, semi-annual interest, due June 2040                       | 850              | 850                  |
| 4.950% Senior notes, semi-annual interest, due May 2042                        | 500              | 500                  |
| 4.875% Senior notes, semi-annual interest, due April 2043                      | 850              | 850                  |
| 5.200% Senior notes, semi-annual interest, due September 2047                  | 1,250            | 1,250                |
| Term loans   | 500              | —                    |
| Revolving credit facility  | 375              | 425                  |
| Commercial paper   | 579              | —                    |
| Program financing line of credit   | 23               | —                    |
| Capital lease obligations  | 279              | 225                  |
| Total debt   | 18,469           | 14,913               |
| Unamortized discount, premium and debt issuance costs, net                     | (140 )           | (128 )               |
| Debt, net of unamortized discount, premium and debt issuance costs             | 18,329           | 14,785               |
| Current portion of debt  | (646 )           | (30 )                |
| Noncurrent portion of debt   | \$17,683         | \$ 14,755            |

## Senior Notes

In connection with the acquisition of Scripps Networks on March 6, 2018, the Company assumed \$2.5 billion aggregate principal amount of Scripps Networks 2.750% senior notes due 2019, 2.800% senior notes due 2020, 3.500% senior notes due 2022, 3.900% senior notes due 2024 and 3.950% senior notes due 2025 (the "Scripps Networks Senior Notes"). As part of accounting for the acquisition of Scripps Networks, the Scripps Networks Senior Notes were adjusted to fair value using observable trades as of the acquisition date. (See Note 2.) The fair value adjustment resulted in an opening balance sheet carrying value that is \$19 million less than the face amount of the

senior notes. As of June 30, 2018, fair value adjustments of \$1 million were amortized to interest expense.

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On April 3, 2018, pursuant to the Offering Memorandum and Consent Solicitation Statement to Exchange dated March 5, 2018, Discovery Communications, LLC ("DCL"), a wholly-owned subsidiary of the Company, completed the exchange of \$2.3 billion aggregate principal amount of Scripps Networks Senior Notes, for \$2.3 billion aggregate principal amount of DCL's 2.750% senior notes due 2019 (the "2019 Notes"), 2.800% senior notes due 2020 (the "2020 Notes"), 3.500% senior notes due 2022 (the "2022 Notes"), 3.900% senior notes due 2024 (the "2024 Notes") and 3.950% senior notes due 2025 (the "2025 Notes"). Interest on the 2019 Notes and the 2024 Notes is payable semi-annually in arrears on May 15 and November 15 of each year beginning on May 15, 2018. Interest on the 2020 Notes, the 2022 Notes and the 2025 Notes is payable semi-annually in arrears on June 15 and December 15 of each year commencing on June 15, 2018. The exchange was accounted for as a debt modification and, as a result, third-party issuance costs were expensed as incurred.

On September 21, 2017, DCL issued \$500 million principal amount of 2.200% senior notes due 2019, \$1.20 billion principal amount of 2.950% senior notes due 2023, \$1.70 billion principal amount of 3.950% senior notes due 2028, \$1.25 billion principal amount of 5.000% senior notes due 2037, \$1.25 billion principal amount of 5.200% senior notes due 2047 (collectively, the "Senior Fixed Rate Notes") and \$400 million principal amount of floating rate senior notes due 2019 (the "Senior Floating Rate Notes" and, together with the Senior Fixed Rate Notes, the "USD Notes"). Interest on the Senior Fixed Rate Notes is payable on March 20 and September 20 of each year. Interest on the Senior Floating Rate Notes is payable on March 20, June 20, September 20 and December 20 of each year. The USD Notes are fully and unconditionally guaranteed by the Company. On September 21, 2017, DCL also issued £400 million principal amount (\$540 million at issuance based on the exchange rate of \$1.35 per pound at September 21, 2017) of 2.500% senior notes due 2024 (the "Sterling Notes"). Interest on the Sterling Notes is payable on September 20 of each year, beginning September 20, 2018. The proceeds received by DCL from the USD Notes and the Sterling Notes were net of a \$11 million issuance discount and \$57 million of debt issuance costs.

On March 13, 2017, DCL issued \$450 million principal amount of 3.80% senior notes due March 13, 2024 (the "2017 USD Notes") and an additional \$200 million principal amount of its existing 4.90% senior notes due March 11, 2026 (the "2016 USD Notes"). Interest on the 2017 USD Notes is payable semi-annually on March 13 and September 13 of each year. Interest on the 2016 USD Notes is payable semi-annually on March 11 and September 11 of each year. The proceeds received by DCL from the 2017 USD Notes were net of a \$1 million issuance discount and \$4 million of debt issuance costs. The proceeds received by DCL from the 2016 USD Notes included a \$10 million issuance premium and were net of \$2 million of debt issuance costs.

DCL used the proceeds from the offerings of the 2017 USD Notes and the 2016 USD Notes to repurchase \$600 million aggregate principal amount of DCL's 5.050% senior notes due 2020 and 5.625% senior notes due 2019 in a cash tender offer. The repurchase resulted in a pretax loss on extinguishment of debt of \$54 million for the three months ended March 31, 2017, which is presented as a separate line item on the Company's consolidated statements of operations and recognized as a component of financing cash outflows on the consolidated statements of cash flows. The loss included \$50 million for premiums to par value, \$2 million of non-cash write-offs of unamortized deferred financing costs, \$1 million for the write-off of the original issue discount of these senior notes and \$1 million accrued for other third-party fees.

As of June 30, 2018, all senior notes are fully and unconditionally guaranteed by the Company and Scripps Networks, except for \$243 million of un-exchanged Scripps Networks Senior Notes acquired in conjunction with the acquisition of Scripps Networks. (See Note 20.)

#### Term Loans

On August 11, 2017, DCL entered into a three-year delayed draw tranche and a five-year delayed draw tranche unsecured term loan credit facility (the "Term Loans"), each with a principal amount of up to \$1 billion. The term of each delayed draw loan commenced on March 6, 2018 when Discovery used these funds to finance a portion of the Scripps Networks acquisition. The Term Loans' interest rates are based, at the Company's option, on either adjusted LIBOR plus a margin, or an alternate base rate plus a margin. The Company paid a commitment fee of 20 basis points

per annum for each loan, based on its then-current credit rating, beginning September 28, 2017 through March 6, 2018. As of June 30, 2018, the Company had an outstanding balance of \$500 million on the three-year tranche. The Company used cash from operations and borrowings under the commercial paper program to pay down a portion of the outstanding Term Loan borrowings.

#### Revolving Credit Facility

On August 11, 2017, DCL amended its \$2.0 billion revolving credit facility to allow DCL and certain designated foreign subsidiaries of DCL to borrow up to \$2.5 billion, including a \$100 million sublimit for the issuance of standby letters of credit and a \$50 million sublimit for Euro-denominated swing line loans. Borrowing capacity under this credit facility is reduced by any outstanding borrowings under the commercial paper program. The revolving credit facility agreement amendment extends the maturity date from February 4, 2021 to August 11, 2022. The original agreement includes the option for up to two additional 364-day renewal periods.

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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. In addition to the change in the revolver's capacity on August 11, 2017, the financial covenants were modified to increase the maximum consolidated leverage ratio financial covenant to 5.50 to 1.00, with step-downs to 5.00 to 1.00 and to 4.50 to 1.00, one year and two years after the closing of the Scripps Networks acquisition, respectively. As of June 30, 2018, the Company's subsidiary, DCL, was in compliance with all covenants and there were no events of default under the revolving credit facility.

As of June 30, 2018, the Company had outstanding U.S. dollar-denominated borrowings under the revolving credit facility of \$375 million at a weighted average interest rate of 3.33%. As of December 31, 2017, the Company had outstanding U.S. dollar-denominated borrowings under the revolving credit facility of \$425 million at a weighted average interest rate of 2.69%. 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 U.S. 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. The Company may also borrow in foreign currencies under the credit facility, at an interest rate 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. The Company had no borrowings under the credit facility in foreign currencies as of June 30, 2018 or December 31, 2017. 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.

Commercial Paper

The Company's commercial paper program is supported by the revolving credit facility described above. Outstanding commercial paper borrowings were \$579 million with a weighted average interest rate of approximately 2.70% as of June 30, 2018. The Company had no outstanding borrowings as of December 31, 2017.

Program Financing Line of Credit

On January 12, 2018, the Company entered into a secured line of credit for an aggregate principal amount of \$26 million to finance content production costs. Interest rates on this line of credit are based on the Company's option to elect either an adjusted LIBOR or a variable prime rate. Interest on the outstanding balance is due quarterly commencing on October 15, 2018 with a final payment due on October 15, 2020. As of June 30, 2018, the Company has an outstanding balance of \$23 million.

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NOTE 7. DERIVATIVE FINANCIAL INSTRUMENTS

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

Unsettled derivative contracts are recorded at their gross fair values on the consolidated balance sheets. (See Note 4.) 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. Gains and losses on the effective portions of designated cash flow and net investment hedges are initially recognized as components of accumulated other comprehensive loss on the consolidated balance sheets and reclassified into the statements of operations in the same line item in which the hedged item is recorded and in the same period as the hedged item affects earnings. The ineffective portion of any previous gains and losses recorded in accumulated other comprehensive loss on the consolidated balance sheets are reclassified immediately to other expense, net on the consolidated statements of operations. The Company recorded gains and losses for instruments that receive no hedging designation, as a component of other expense, net on the consolidated statements of operations. 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 of the hedged item.

Effective January 1, 2018, upon adoption of ASU 2016-01, the Company no longer applies hedge accounting to the Lionsgate Collar. There is no change to the manner in which the Company accounts for the collar as movements in its fair value will continue to be recorded as a component of other expense, net on the consolidated statements of operations. (See Note 1 and Note 4.)



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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 June 30, 2018 and December 31, 2017.

|  | June 30, 2018 |  |                                    |                        |   | December 31, 2017 |  |                                    |                        |   |
|--|---------------|--|------------------------------------|------------------------|---|-------------------|--|------------------------------------|------------------------|---|
|  | Notional      | Fair Value<br>Prepaid<br>expenses<br>and non-<br>current<br>assets | Other<br>non-<br>current<br>assets | Accrued<br>liabilities | Other<br>non-<br>current<br>liabilities | Notional          | Fair Value<br>Prepaid<br>expenses<br>and non-<br>current<br>assets | Other<br>non-<br>current<br>assets | Accrued<br>liabilities | Other<br>non-<br>current<br>liabilities |
| Cash flow hedges:                        |               |  |                                    |                        |   |                   |  |                                    |                        |   |
| Foreign exchange                         | \$835         | \$28   | \$ —                               | \$ 3                   | \$ —                                    | \$817             | \$7  | \$ —                               | \$ 12                  | \$ —                                    |
| Net investment hedges: <sup>(a)</sup>    |               |  |                                    |                        |   |                   |  |                                    |                        |   |
| Cross-currency swaps                     | 1,703         | —  | 6                                  | 17                     | 98                                      | 1,708             | —  | 3                                  | 13                     | 98                                      |
| Foreign exchange                         | —             | —  | —                                  | —                      | —                                       | 303               | 2  | —                                  | 8                      | —                                       |
| Fair value hedges:                       |               |  |                                    |                        |   |                   |  |                                    |                        |   |
| Equity (Lionsgate collar) <sup>(b)</sup> | —             | —  | —                                  | —                      | —                                       | 97                | —  | 13                                 | —                      | —                                       |
| No hedging designation:                  |               |  |                                    |                        |   |                   |  |                                    |                        |   |
| Interest rate swaps                      | 25            | —  | —                                  | —                      | —                                       | 25                | —  | —                                  | —                      | —                                       |
| Cross-currency swaps                     | 64            | —  | —                                  | 1                      | 3                                       | 64                | —  | —                                  | —                      | 6                                       |
| Equity (Lionsgate collar) <sup>(b)</sup> | 97            | —  | 24                                 | —                      | —                                       | —                 | —  | —                                  | —                      | —                                       |
| Credit contracts                         | —             | —  | —                                  | —                      | —                                       | 665               | —  | —                                  | —                      | 1                                       |
| Total                                    |               | \$28   | \$ 30                              | \$ 21                  | \$ 101                                  |                   | \$9  | \$ 16                              | \$ 33                  | \$ 105                                  |

<sup>(a)</sup> Excludes £400 million of sterling notes (\$522 million equivalent at June 30, 2018) designated as a net investment hedge. (See Note 6.)

<sup>(b)</sup> Upon adoption of ASU 2016-01 on January 1, 2018, the Lionsgate Collar no longer receives the hedge accounting designation. (See Note 1 and Note 4.)

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

|   | Three<br>Months<br>Ended June<br>30,<br>2018 |        | Six Months<br>Ended June<br>30,<br>2017 |        |
|---|--|--------|---|--------|
| Gains (losses) recognized in accumulated other comprehensive loss:  |  |        |   |        |
| Foreign exchange - derivative adjustments   | \$39   | \$(18) | \$29                                    | \$(31) |
| Gains (losses) reclassified into income from accumulated other comprehensive loss<br>(effective portion): |  |        |   |        |
| Foreign exchange - distribution revenue   | 3  | (4)    | 3                                       | (7)    |
| Foreign exchange - advertising revenue  | (2)  | (1)    | (1)                                     | (1)    |
| Foreign exchange - costs of revenues  | —  | —      | (4)                                     | 4      |
| Interest rate - interest expense  | —  | —      | —                                       | (1)    |

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If current fair values of designated cash flow hedges as of June 30, 2018 remained static over the next twelve months, the Company would reclassify \$22 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).

|  | Three<br>Months<br>Ended<br>June 30,<br>2018 |        | Six Months<br>Ended June<br>30,<br>2017 |        |
|--|--|--------|---|--------|
| Currency translation adjustments:                  |  |        |   |        |
| Cross-currency swaps - changes in fair value       | \$54   | \$(39) | \$(2)                                   | \$(48) |
| Cross-currency swaps - interest settlements        | —  | —      | 7                                       | 5      |
| Foreign exchange - changes in fair value           | —  | —      | (1)                                     | —      |
| Sterling Notes - changes in foreign exchange rates | 41   | —      | 16                                      | —      |
| Total other comprehensive income (loss)            | \$95   | \$(39) | \$20                                    | \$(43) |

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). Upon adoption of ASU 2016-01 on January 1, 2018, the Company no longer designates any of its derivatives as fair value hedges. As a result, there was no activity related to derivatives designated as fair value hedges for the three and six months ended June 30, 2018. There were no amounts of ineffectiveness recognized on fair value hedges for the three and six months ended June 30, 2017.

|   | Three<br>Months<br>Ended<br>June 30,<br>2017 |   | Six<br>Months<br>Ended<br>June 30,<br>2017 |   |
|---|--|---|--|---|
| Gains on changes in fair value of hedged AFS                          | \$   | 4 | \$   | 4 |
| Gains on changes in the intrinsic value of equity contracts           | (4   | ) | (4   | ) |
| Fair value of equity contracts excluded from effectiveness assessment | 3  |   | 1  |   |
| Total in other expense, net   | \$   | 3 | \$   | 1 |

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

|                             | Three<br>Months<br>Ended<br>June 30,<br>2018 |       | Six<br>Months<br>Ended<br>June 30,<br>2017 |       |
|-----------------------------|--|-------|--|-------|
| Cross-currency swaps        | \$4  | \$(2) | \$—  | \$(3) |
| Credit contracts            | —  | —     | (1)  | —     |
| Equity                      | 1  | —     | 11   | —     |
| Total in other expense, net | \$5  | \$(2) | \$10                                       | \$(3) |



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## NOTE 8. REDEEMABLE NONCONTROLLING INTERESTS

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

|  | Three<br>Months<br>Ended June<br>30,<br>2018 |       | Six Months<br>Ended June<br>30,<br>2017 |       |
|--|--|-------|---|-------|
| Beginning balance  | \$419  | \$249 | \$413                                   | \$243 |
| Cash distributions to redeemable noncontrolling interests                      | (19 )  | (17 ) | (21 )                                   | (20 ) |
| Comprehensive income adjustments:  |  |       |   |       |
| Net income attributable to redeemable noncontrolling interests                 | 5  | 6     | 11                                      | 12    |
| Other comprehensive income attributable to redeemable noncontrolling interests | —  | —     | —                                       | 1     |
| Currency translation on redemption values                                      | (1 )   | (1 )  | 1                                       | —     |
| Retained earnings adjustments:   |  |       |   |       |
| Adjustments of redemption values to the floor                                  | 6  | —     | 6                                       | 1     |
| Ending balance   | \$410  | \$237 | \$410                                   | \$237 |

Redeemable noncontrolling interests consist of the arrangements described below:

In connection with its noncontrolling interest in OWN, Harpo has the right to require the Company to purchase its remaining noncontrolling interest at fair value during 90-day windows beginning on July 1, 2018 and every two and a half years thereafter through January 1, 2026. As of the issuance date of these financial statements, Harpo has not exercised its right to put. As Harpo's put right is outside the control of the Company, Harpo's noncontrolling interest is presented as redeemable noncontrolling interest outside of permanent equity on the Company's consolidated balance sheet. As of June 30, 2018, the Company recorded \$56 million for the redeemable noncontrolling interest in equity of OWN. (See Note 2.)

In connection with the MTG joint venture between Discovery and GoldenTree created on September 25, 2017, GoldenTree acquired a put right exercisable during 30-day windows beginning on each of March 25, 2021, September 25, 2022 and March 25, 2024, that requires Discovery to either purchase all of GoldenTree's noncontrolling 32.5% interest in the joint venture at fair value or participate in an initial public offering for the joint venture. As the put right is outside of the Company's control, GoldenTree's 32.5% noncontrolling interest is presented as redeemable noncontrolling interest outside of permanent equity on the Company's consolidated balance sheet. As of June 30, 2018, the Company recorded \$121 million for the redeemable noncontrolling interest in equity of MTG. (See Note 2.)

In connection with its noncontrolling interest in Discovery Family, Hasbro Inc. ("Hasbro") has the right to put the entirety of its remaining 40% interest in the Company to Discovery at any time during the one-year period beginning 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 during the same one-year period beginning December 31, 2021. Upon the exercise of the put or call options, the price to be paid for the redeemable noncontrolling interest is generally a function of the then-current fair market value of the redeemable noncontrolling interest, to which certain discounts and floor values may apply in specified situations depending upon the party exercising the put or call and the basis for the exercise of the put or call. As Hasbro's put right is outside the control of the Company, Hasbro's 40% noncontrolling interest is presented as redeemable noncontrolling interest outside of permanent equity on the Company's consolidated balance sheet. As of June 30, 2018, the Company recorded \$206 million for the redeemable noncontrolling interest in equity of Discovery Family.

In connection with its noncontrolling 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. As amended, through January 10, 2019, 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. As of June 30, 2018, the Company recorded \$27 million for the redeemable noncontrolling interest in equity of Discovery Japan.

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

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Redeemable noncontrolling interest adjustments of redemption value to the floor are reflected in retained earnings. The adjustment of redemption value to the floor that reflects a redemption in excess of fair value is included as an adjustment to income from continuing operations available to Discovery, Inc. stockholders in the calculation of earnings per share.

NOTE 9. EQUITY

Common Stock Issued in Connection with Scripps Networks Acquisition

On March 6, 2018, the Company issued 139 million shares of Series C common stock as part of the consideration paid for the acquisition of Scripps Networks, inclusive of the conversion of 1 million Scripps Networks share-based compensation awards. (See Note 2.)

Repurchase Programs

Common Stock

On August 3, 2010, the Company implemented a stock repurchase program. Under the Company's stock repurchase program, management was 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. The Company's authorization under the program expired on October 8, 2017.

All common stock repurchases, including prepaid common stock repurchase contracts, have been made through open market transactions and have been recorded as treasury stock on the consolidated balance sheet. As of June 30, 2018, the Company had repurchased over the life of the program 3 million and 164 million shares of Series A and Series C common stock, respectively, for an aggregate purchase price of \$171 million and \$6.6 billion, respectively. The table below presents a summary of common stock repurchases (in millions).

|  | Three<br>Months<br>Ended<br>June 30,<br>2017 | Six<br>Months<br>Ended<br>June 30,<br>2017 |
|--|--|--|
|--|--|--|

Series C Common Stock:

|                    |        |        |
|--------------------|--------|--------|
| Shares repurchased | —9.1   | —14.3  |
| Purchase price     | \$—241 | \$—381 |

Convertible Preferred Stock and Preferred Stock Modification

The Company has two series of preferred stock authorized, issued and outstanding as of June 30, 2018: Series A-1 convertible preferred stock and Series C-1 convertible preferred stock. There are 8 million shares authorized for Series A-1 convertible preferred stock and 6 million shares authorized for Series C-1 convertible preferred stock.

On August 7, 2017, Discovery completed the transactions contemplated by the Exchange Agreement with Advance/Newhouse. Under the Exchange Agreement, Discovery issued a number of shares of newly designated Series A-1 and Series C-1 convertible preferred stock (collectively, the "New Preferred Stock") to Advance/Newhouse in exchange for all outstanding shares of Discovery Series A and Series C convertible participating preferred stock (the "Exchange"). The terms of the Exchange Agreement resulted in Advance/Newhouse's aggregate voting and economic rights before the exchange being equal to its aggregate voting and economic rights after the exchange. Immediately following the Exchange, Advance/Newhouse's beneficial ownership of the aggregate number of shares of Discovery's Series A common stock and Series C common stock into which the New Preferred Stock received by Advance/Newhouse in the Exchange are convertible, remained unchanged. The terms of the exchange agreement also provide that certain of the shares of Discovery Series C-1 convertible preferred stock received by Advance/Newhouse in the Exchange (including the Discovery Series C common stock into which such shares are convertible) are subject to transfer restrictions on the terms set forth in the Exchange Agreement. While subject to transfer restrictions, such

shares may be pledged in certain bona fide financing transactions, but may not be pledged in connection with hedging or similar transactions.

Prior to the Exchange each share of Series A preferred stock was convertible into one share of Series A common stock and one share of Series C common stock (referred to as the “embedded Series C common stock”). Through its ownership of the Series A convertible preferred stock, Advance/Newhouse had the right to elect three directors (the “preferred directors”) and maintained special voting rights on certain matters, including but not limited to blocking rights for material acquisitions, the issuance of debt securities and the issuance of equity securities (collectively, the “preferred rights”). Additionally, Advance/Newhouse was subject to certain transfer restrictions with respect to its governance rights. Prior to the Exchange, the Series C convertible preferred stock was considered the economic equivalent of Series C common stock.

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Following the Exchange, shares of Series A-1 preferred stock and Series C-1 preferred stock are convertible into Series A common stock and Series C common stock, respectively. The aforementioned preferred rights and transfer restrictions are retained as features of the Series A-1 preferred stock, and holders of Series A-1 preferred stock are now subject to a right of first offer in favor of Discovery should Advance/Newhouse desire to sell 80% or more of the Series A-1 shares in a "Permitted Transfer" (as defined in the Discovery charter). Following the Exchange, Series C-1 convertible preferred stock is considered the economic equivalent of Series C common stock and is subject to certain transfer restrictions.

Discovery considers the Exchange of the Series A convertible preferred stock for Series A-1 convertible preferred stock and Series C-1 convertible preferred stock to be a modification to the conversion option of the Series A convertible preferred stock. Previously, conversion of Series A preferred stock required simultaneous conversion into Series A common stock and Series C common stock. The Exchange, however, allows for the independent conversion of the Series C-1 convertible preferred stock into Series C common stock without the conversion of Series A-1 convertible preferred stock. Advance/Newhouse's aggregate voting, economic and preferred rights before the Exchange are equal to its aggregate voting, economic and preferred rights after the Exchange.

As of June 30, 2018, all outstanding shares of Series A-1 and Series C-1 convertible preferred stock were held by Advance/Newhouse. Consistent with the terms of the arrangement prior to the Exchange, holders of Series A-1 and Series C-1 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-1 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-1 convertible preferred stock are entitled to vote on matters to which holders of Series C common stock, which is generally non-voting, are entitled to vote pursuant to Delaware law. Series A-1 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-1 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-1 convertible preferred stock issued to Advance/Newhouse in connection with the formation of Discovery plus any Series A-1 convertible preferred stock released from escrow, as may be adjusted for certain capital transactions.

Subject to the prior preferences and other rights of any senior stock, holders of Series A-1 and Series C-1 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.

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-1 and Series C-1 convertible preferred stock, the holders of Series A-1 and Series C-1 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-1 and Series C-1 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

Prior to the Exchange, the Company had an agreement with Advance/Newhouse to repurchase, on a quarterly basis, a number of shares of Series C convertible preferred stock convertible into Series C common stock based on 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 common stock repurchase program. The repurchase transactions are recorded as a decrease in par value of preferred stock and retained earnings upon settlement as there is no remaining additional paid-in capital ("APIC") for this class of stock and the shares are retired upon repurchase. The Advance/Newhouse repurchase agreement was amended on August 7, 2017 to conform the terms of the previous agreement, as detailed above, to the conversion ratio of the newly issued Series C-1 convertible preferred stock.

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

|                                       | Three<br>Months<br>Ended<br>June 30,<br>201 <del>8</del> 17 | Six<br>Months<br>Ended<br>June 30,<br>201 <del>8</del> 17 |
|---------------------------------------|---|---|
| Series C convertible preferred stock: |   |   |
| Shares repurchased                    | — 1.1   | —2.3  |
| Purchase price                        | \$—\$ 60  | \$—\$120  |

There were no repurchases of Series C-1 convertible preferred stock during 2018 and 2017.

#### Stock Repurchases

As of June 30, 2018, total shares repurchased, on a split-adjusted and as-converted basis, under these programs were 33% of the Company's outstanding shares on a fully-diluted basis since the repurchase programs were authorized.

#### Common Stock Repurchase Contract

On March 15, 2017, the Company settled a December 15, 2016 common stock repurchase contract through the receipt of \$58 million of cash. The Company had prepaid \$57 million for the common stock repurchase contract in 2016 with the option to settle the contract in cash or Series C common stock in March 2017. The Company elected to receive a cash settlement inclusive of a \$1 million premium, which is reflected as an adjustment to APIC.

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Other Comprehensive (Loss) Income Adjustments

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

|   | Three Months Ended June 30, 2018 |                       |            | Three Months Ended June 30, 2017 |                       |            |
|---|----------------------------------|-----------------------|------------|----------------------------------|-----------------------|------------|
|   | Pretax                           | Tax Benefit (Expense) | Net-of-tax | Pretax                           | Tax Benefit (Expense) | Net-of-tax |
| Currency translation adjustments:             |                                  |                       |            |                                  |                       |            |
| Unrealized (losses) gains:                    |                                  |                       |            |                                  |                       |            |
| Foreign currency                              | \$(295)                          | \$ (10 )              | \$ (305 )  | \$109                            | \$ 9                  | \$ 118     |
| Net investment hedges                         | 95                               | —                     | 95         | (39 )                            | —                     | (39 )      |
| Reclassifications:                            |                                  |                       |            |                                  |                       |            |
| Loss on disposition                           | 4                                | —                     | 4          | 12                               | —                     | 12         |
| Total currency translation adjustments        | (196 )                           | (10 )                 | (206 )     | 82                               | 9                     | 91         |
| AFS adjustments: <sup>(a)</sup>               |                                  |                       |            |                                  |                       |            |
| Unrealized gains                              | —                                | —                     | —          | 9                                | —                     | 9          |
| Reclassifications to other expense, net:      |                                  |                       |            |                                  |                       |            |
| Hedged portion of AFS securities              | —                                | —                     | —          | (4 )                             | —                     | (4 )       |
| Total equity investment adjustments           | —                                | —                     | —          | 5                                | —                     | 5          |
| Derivative adjustments:                       |                                  |                       |            |                                  |                       |            |
| Unrealized gains (losses)                     | 39                               | (9 )                  | 30         | (18 )                            | 5                     | (13 )      |
| Reclassifications:                            |                                  |                       |            |                                  |                       |            |
| Distribution revenue                          | (3 )                             | —                     | (3 )       | 4                                | (1 )                  | 3          |
| Advertising revenue                           | 2                                | —                     | 2          | 1                                | —                     | 1          |
| Total derivative adjustments                  | 38                               | (9 )                  | 29         | (13 )                            | 4                     | (9 )       |
| Other comprehensive (loss) income adjustments | \$(158)                          | \$ (19 )              | \$ (177 )  | \$74                             | \$ 13                 | \$ 87      |

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|   | Six Months Ended June 30,<br>2018 |                             |            | Six Months Ended June 30,<br>2017 |                             |            |
|---|-----------------------------------|-----------------------------|------------|-----------------------------------|-----------------------------|------------|
|   | Pretax                            | Tax<br>Benefit<br>(Expense) | Net-of-tax | Pretax                            | Tax<br>Benefit<br>(Expense) | Net-of-tax |
| Currency translation adjustments:             |                                   |                             |            |                                   |                             |            |
| Unrealized (losses) gains                     |                                   |                             |            |                                   |                             |            |
| Foreign currency                              | \$ (224)                          | \$ (3 )                     | \$ (227 )  | \$ 180                            | \$ 10                       | \$ 190     |
| Net investment hedges                         | 20                                | —                           | 20         | (43 )                             | —                           | (43 )      |
| Reclassifications:                            |                                   |                             |            |                                   |                             |            |
| Loss on disposition                           | 4                                 | —                           | 4          | 12                                | —                           | 12         |
| Total currency translation adjustments        | (200 )                            | (3 )                        | (203 )     | 149                               | 10                          | 159        |
| AFS adjustments: <sup>(a)</sup>               |                                   |                             |            |                                   |                             |            |
| Unrealized gains                              | —                                 | —                           | —          | 8                                 | —                           | 8          |
| Reclassifications to other expense, net:      |                                   |                             |            |                                   |                             |            |
| Hedged portion of AFS securities              | —                                 | —                           | —          | (4 )                              | —                           | (4 )       |
| Total equity investment adjustments           | —                                 | —                           | —          | 4                                 | —                           | 4          |
| Derivative adjustments:                       |                                   |                             |            |                                   |                             |            |
| Unrealized gains (losses)                     | 29                                | (6 )                        | 23         | (31 )                             | 10                          | (21 )      |
| Reclassifications:                            |                                   |                             |            |                                   |                             |            |
| Distribution revenue                          | (3 )                              | —                           | (3 )       | 7                                 | (2 )                        | 5          |
| Advertising revenue                           | 1                                 | —                           | 1          | 1                                 | —                           | 1          |
| Costs of revenues                             | 4                                 | (1 )                        | 3          | (4 )                              | 1                           | (3 )       |
| Interest expense                              | —                                 | —                           | —          | 1                                 | —                           | 1          |
| Total derivative adjustments                  | 31                                | (7 )                        | 24         | (26 )                             | 9                           | (17 )      |
| Other comprehensive (loss) income adjustments | \$ (169)                          | \$ (10 )                    | \$ (179 )  | \$ 127                            | \$ 19                       | \$ 146     |

<sup>(a)</sup> Effective January 1, 2018, upon adoption of ASU 2016-01, unrealized gains and losses on equity investments with readily determinable fair values are recorded in other expense, net. The Company recorded a transition adjustment to reclassify prior period amounts in other comprehensive income to retained earnings. (See Note 1 and Note 3.)

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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).

|   | Three Months Ended June 30, 2018 |                    |             | Accumulated<br>Other<br>Comprehensive<br>Loss |
|---|----------------------------------|--------------------|-------------|---|
|   | Currency<br>Translation          | AFS <sup>(a)</sup> | Derivatives |   |
| Beginning balance   | \$(612)                          | \$ —               | (1 )        | \$ (613 )                                     |
| Other comprehensive (loss) income before reclassifications                        | (210 )                           | —                  | 30          | (180 )  |
| Reclassifications from accumulated other comprehensive loss to net income         | 4                                | —                  | (1 )        | 3   |
| Other comprehensive (loss) income   | (206 )                           | —                  | 29          | (177 )  |
| Ending balance  | \$(818)                          | \$ —               | \$ 28       | \$ (790 )                                     |
|   | Three Months Ended June 30, 2017 |                    |             |   |
|   | Currency<br>Translation          | AFS <sup>(a)</sup> | Derivatives | Accumulated<br>Other<br>Comprehensive<br>Loss |
| Beginning balance   | \$(730)                          | \$ 10              | \$ 16       | \$ (704 )                                     |
| Other comprehensive income (loss) before reclassifications                        | 79                               | 9                  | (13 )       | 75  |
| Reclassifications from accumulated other comprehensive loss to net income         | 12                               | (4 )               | 4           | 12  |
| Other comprehensive income (loss)   | 91                               | 5                  | (9 )        | 87  |
| Ending balance  | \$(639)                          | \$ 15              | \$ 7        | \$ (617 )                                     |
|   | Six Months Ended June 30, 2018   |                    |             |   |
|   | Currency<br>Translation          | AFS <sup>(a)</sup> | Derivatives | Accumulated<br>Other<br>Comprehensive<br>Loss |
| Beginning balance   | \$(615)                          | \$ 26              | \$ 4        | \$ (585 )                                     |
| Other comprehensive (loss) income before reclassifications                        | (207 )                           | —                  | 23          | (184 )  |
| Reclassifications from accumulated other comprehensive loss to net income         | 4                                | —                  | 1           | 5   |
| Other comprehensive (loss) income   | (203 )                           | —                  | 24          | (179 )  |
| Reclassifications to retained earnings resulting from the adoption of ASU 2016-01 | —                                | (26 )              | —           | (26 )   |
| Ending balance  | \$(818)                          | \$ —               | \$ 28       | \$ (790 )                                     |

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|  | Six Months Ended June 30, 2017 |                    |             |   |
|--|--------------------------------|--------------------|-------------|---|
|  | Currency<br>Translation        | AFS <sup>(a)</sup> | Derivatives | Accumulated<br>Other<br>Comprehensive<br>Loss |
| Beginning balance  | \$ (797)                       | \$ 11              | \$ 24       | \$ (762 )                                     |
| Other comprehensive income (loss) before reclassifications                     | 147                            | 8                  | (21 )       | 134   |
| Reclassifications from accumulated other comprehensive loss to net income      | 12                             | (4 )               | 4           | 12  |
| Other comprehensive income (loss)  | 159                            | 4                  | (17 )       | 146   |
| Other comprehensive income attributable to redeemable noncontrolling interests | (1 )                           | —                  | —           | (1 )  |
| Ending balance   | \$ (639)                       | \$ 15              | \$ 7        | \$ (617 )                                     |

<sup>(a)</sup> Effective January 1, 2018, unrealized gains and losses on equity investments with readily determinable fair values are recorded in other expense, net. (See Note 1 and Note 3.)

NOTE 10. NONCONTROLLING INTEREST

In conjunction with the acquisition of Scripps Networks, the Company acquired a controlling interest in the TV Food Network Partnership ("the Partnership"), which is jointly owned with Tribune Media Company (the "Tribune Company"). Food Network and Cooking Channel are operated and organized under the terms of the Partnership. The Company holds 80% of the voting interest and 68.7% of the economic interest in the Partnership. Under the terms of the Partnership, the Partnership has a dissolution date of December 31, 2020. If the term of the Partnership is not extended prior to that date, the Partnership agreement permits the Company, as holder of 80% of the applicable votes, to reconstitute the Partnership and continue its business. If for some reason the Partnership is not continued, it will be required to limit its activities to winding up, settling debts, liquidating assets and distributing proceeds to the partners in proportion to their partnership interests. Ownership interests attributable to the Tribune Company are presented as noncontrolling interests on the Company's consolidated financial statements. Under the terms of the Partnership agreement, Tribune Company cannot force a redemption outside of the Company's control. As such, the noncontrolling interests in the Partnership are reflected as a component of permanent equity in the Company's consolidated financial statements.

NOTE 11. REVENUES

The Company generates revenues principally from: (i) distribution revenues for fees charged to distributors of its network content, which include cable, direct-to-home ("DTH") satellite, telecommunications and digital service providers and bundled long-term content arrangements, (ii) advertising revenue for advertising sold on its television networks and websites and (iii) other revenue related to several items including: (a) production studios content development and services, (b) affiliate and advertising sales representation services and (c) the licensing of the Company's brands for consumer products.

Revenue is recognized upon transfer of control of promised services or goods to customers in an amount that reflects the consideration that the Company expects to receive in exchange for those services or goods. 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 operators 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 is 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 to estimate royalty revenue. Historical adjustments to recorded estimates have not been material. Distribution revenue from fixed-fee contracts is recognized over the contract term based on the continuous delivery of the content to the affiliate. Any monetary incentives provided to distributors are recognized as a reduction of revenue over the service term.

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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.

Although the delivery of linear feeds and digital direct-to-consumer products, such as video on demand (“VOD”), are considered distinct performance obligations, VOD offerings generally match the programs that are airing on the linear network. Therefore, the Company recognizes revenue for licensing arrangements that include both linear feeds and VOD as the license fee is earned.

#### Advertising

Advertising revenues are principally generated from the sale of bundled commercial time on linear and digital platforms. A substantial portion of the advertising contracts in the U.S. and certain international markets 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 based on the audience level delivered multiplied by the average price per impression. The Company provides the advertiser with advertising until the guaranteed audience level is delivered. As such, revenues are deferred until the guaranteed audience level is delivered or the rights associated with the guarantee lapse, which is less than a year. Audience guarantees are initially developed internally based on planned programming, historical audience levels, the success of pilot programs, and market trends. Invoiced advertising revenue receivables may exceed the value of the audience delivery, resulting in deferred revenue balances.

Advertising contracts, which are generally short-term, are billed monthly, with payments due shortly after the invoice date. 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.

For contracts without an audience guarantee, advertising revenues are recognized as each spot airs. Advertising revenues from digital platforms are recognized as impressions are delivered or the services are performed.

The airing of a campaign of advertising spots with a guaranteed audience level is considered a single, distinct performance obligation. The airing of individual spots without a guaranteed audience level are each distinct, individual performance obligations. The Company allocates the consideration to each spot based on their relative standalone selling prices.

#### Other

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

#### Multiple Performance Obligations

Contracts with customers may include multiple distinct performance obligations. For example, distribution contracts may include VOD and digital direct-to-consumer products in addition to the linear feed delivery. Advertising contracts may include sponsorship, production, or product integration in addition to the airing of spots and the satisfaction of an audience guarantee. For such arrangements, revenue is allocated to each performance obligation based on its relative standalone selling price, which is determined based on the cost plus an expected margin. In the case of VOD and linear feed, performance obligations satisfaction occurs at the same time. Therefore, any transaction price allocated to the VOD performance obligation would be recognized using the same pattern of recognition as the linear feed.

#### Deferred Revenue

Deferred revenue consists of cash received for television advertising for which the guaranteed viewership has not been provided, product licensing arrangements in which fee collections are in excess of the license value provided, advanced fees received related to the sublicensing of Olympic rights and advanced billings to subscribers for access to the Company’s curriculum-based streaming services. The amounts classified as current are expected to be earned



within the next year.

Payment terms vary by the type and location of the customer and the products or services offered. The term between invoicing and when payment is due is not significant. For certain products or services and customer types, we require payment before the products or services are delivered to the customer.

#### Revenue Recognition

The following table presents the Company's revenues disaggregated by revenue source (in millions). Management uses these categories of revenue to evaluate the performance of its businesses and to assess its financial results and forecasts.

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|              | Three Months Ended June 30, |                        |                     |               |                        |                     |
|--------------|-----------------------------|------------------------|---------------------|---------------|------------------------|---------------------|
|              | 2018                        |                        |                     | 2017          |                        |                     |
|              | U.S. Networks               | International Networks | Education and Other | U.S. Networks | International Networks | Education and Other |
| Revenues:    |                             |                        |                     |               |                        |                     |
| Distribution | \$ 654                      | \$ 532                 | \$ —                | \$ 400        | \$ 457                 | \$ —                |
| Advertising  | 1,090                       | 473                    | —                   | 472           | 333                    | —                   |
| Other        | 36                          | 46                     | 14                  | 18            | 21                     | 44                  |
| Totals       | \$ 1,780                    | \$ 1,051               | \$ 14               | \$ 890        | \$ 811                 | \$ 44               |

|              | Six Months Ended June 30, |                        |                     |               |                        |                     |
|--------------|---------------------------|------------------------|---------------------|---------------|------------------------|---------------------|
|              | 2018                      |                        |                     | 2017          |                        |                     |
|              | U.S. Networks             | International Networks | Education and Other | U.S. Networks | International Networks | Education and Other |
| Revenues:    |                           |                        |                     |               |                        |                     |
| Distribution | \$ 1,168                  | \$ 1,069               | \$ —                | \$ 808        | \$ 904                 | \$ —                |
| Advertising  | 1,717                     | 858                    | —                   | 877           | 615                    | —                   |
| Other        | 69                        | 222                    | 49                  | 34            | 39                     | 81                  |
| Totals       | \$ 2,954                  | \$ 2,149               | \$ 49               | \$ 1,719      | \$ 1,558               | \$ 81               |

#### Transaction Price Allocated to Remaining Performance Obligations

Most of the Company's distribution contracts are licenses of functional intellectual property where revenue is derived from royalty-based arrangements, for which the guidance allows for the application of a practical expedient instead of estimating incremental royalty contract revenue. However, there are certain other distribution arrangements that are fixed price or contain minimum guarantees that extend beyond one year. The transaction price allocated to remaining performance obligations within these fixed price or minimum guarantee distribution revenue contracts was \$1.8 billion as of June 30, 2018, and is expected to be recognized over the next ten years.

The Company's content licensing contracts and sports sublicensing deals are licenses of functional intellectual property. Certain of these arrangements extend beyond one year. The transaction price allocated to remaining performance obligations on these long-term contracts was \$535 million as of June 30, 2018, and is expected to be recognized over the next seven years.

The Company's brand licensing contracts are licenses of symbolic intellectual property. Certain of these arrangements extend beyond one year. The transaction price allocated to remaining performance obligations on these long-term contracts was \$79 million as of June 30, 2018, and is expected to be recognized over the next fifteen years.

Due to the use of the practical expedients noted below, the above disclosure does not include information related to advertising since the duration of these arrangements is less than one year.

#### Contract Balances

A receivable is recorded when there is an unconditional right to consideration based on a contract with a customer. A contract liability, deferred revenue, is recorded when cash is received in advance of the Company's performance. The following table presents (in millions) the Company's opening and closing balances of receivables and deferred revenues, as well as activity since the beginning of the period.

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|                     | December<br>31, 2017 | Additions<br>(b) | Reductions<br>(c) | Foreign<br>Currency | June<br>30,<br>2018 |
|---------------------|----------------------|------------------|-------------------|---------------------|---------------------|
| Accounts receivable | \$ 1,838             | 5,933            | (4,999)           | (25)                | \$ 2,747            |
| Deferred revenues:  |                      |                  |                   |                     |                     |
| Current             | 255                  | 699              | (668)             | (9)                 | 277                 |
| Long term (a)       | 109                  | 9                | (21)              | —                   | 97                  |

|                     | December<br>31, 2016 | Additions | Reductions<br>(d) | Foreign<br>Currency | June<br>30,<br>2017 |
|---------------------|----------------------|-----------|-------------------|---------------------|---------------------|
| Accounts receivable | \$ 1,495             | 3,382     | (3,139)           | 20                  | \$ 1,758            |
| Deferred revenues:  |                      |           |                   |                     |                     |
| Current             | 163                  | 388       | (388)             | 30                  | 193                 |
| Long term (a)       | 122                  | 9         | (39)              | 3                   | 95                  |

(a) Long term deferred revenues is a component of other noncurrent liabilities on the consolidated balance sheets.

(b) This column includes Scripps Networks accounts receivable and deferred revenues balances of \$783 million and \$122 million, respectively, as of March 6, 2018, the date of the acquisition. (See Note 2.)

(c) This column includes the impact of the sale of the Education Business on April 30, 2018. (See Note 2.) As of the sale date, accounts receivable and deferred revenue balances were \$32 million and \$74 million, respectively.

(d) This column includes the impact of the sale of Raw and Betty on April 28, 2017. (See Note 2.) As of the sale date, accounts receivable and deferred revenue balances were \$6 million and \$17 million, respectively.

#### Practical Expedients and Exemptions

With the exception of commissions related to certain education products, sales commissions are generally expensed as incurred because contracts for which the sales commission are generated are one year or less or are not material. Sales commissions are recorded as a component of cost of revenues on the consolidated statements of operations. The financing component of content licensing arrangements is not capitalized, because the period between delivery of the license and customer payment is one year or less or is not material.

The value of unsatisfied performance obligations is not disclosed for: (i) contracts involving variable consideration for which revenues are recognized in accordance with the usage-based royalty exception, and (ii) contracts with an original expected length of one year or less, such as advertising contracts.

#### NOTE 12. EMPLOYEE BENEFIT PLANS

The Company has defined contribution and other savings plans for the benefit of its employees that meet eligibility requirements.

As a result of the acquisition of Scripps Networks on March 6, 2018, the Company assumed employee defined benefit plans previously sponsored by Scripps Networks: (i) qualified defined benefit pension plan ("Pension Plan") that covers certain U.S.-based employees and (ii) non-qualified unfunded Supplemental Executive Retirement Plan ("SERP"), which in addition to the Pension Plan provides defined pension benefits to eligible executives.

#### Pension Plan and SERP

Expense recognized in relation to the Pension Plan and SERP is based upon actuarial valuations. Inherent in those valuations are key assumptions including discount rates and, where applicable, expected returns on assets and projected future salary rates. Benefits are generally based on the employee's compensation and years of service. As of December 31, 2009, no additional service benefits have been earned by participants under the Pension Plan. The amount of eligible compensation that is used to calculate a plan participant's pension benefit includes compensation earned by the employee through December 31, 2019, after which time all plan participants will have a frozen pension benefit.

The following table presents the funded status of the benefit obligation of the Pension Plan and SERP based upon a valuation as of March 6, 2018, the date of the acquisition of Scripps Networks. The funded status represents the benefit obligation less the fair value of the plan assets. Plan assets consist of a mix of U.S. and non-U.S. equity securities, fixed income securities and alternative investment funds.

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|                              | March 6,<br>2018 |        |
|------------------------------|------------------|--------|
|                              | Pension<br>Plan  | SERP   |
| Projected benefit obligation | \$(96)           | \$(62) |
| Fair value of plan assets    | 60               | —      |
| Funded status                | \$(36)           | \$(62) |

The following table presents the components of the net periodic pension cost for the Pension Plan and SERP (in millions).

|   | Three<br>Months<br>Ended June<br>30, 2018 |        | Six Months<br>Ended June<br>30, 2018 |        |
|---|---|--------|--------------------------------------|--------|
|   | Pension<br>Plan                           | SERP   | Pension<br>Plan                      | SERP   |
| Interest cost                                   | \$0.9                                     | \$ 0.4 | \$1.2                                | \$ 0.5 |
| Expected return on plan assets, net of expenses | (1.0 )                                    | —      | (1.4 )                               | —      |
| Net periodic pension cost                       | \$(0.1)                                   | \$ 0.4 | \$(0.2)                              | \$ 0.5 |

Following the acquisition of Scripps Networks, the Company contributed \$1 million to the Pension Plan and made no SERP benefit payments. During the remainder of 2018, the Company anticipates contributing \$2 million to fund the Pension Plan and making \$35 million in SERP benefit payments.

Assumptions used in determining the Pension Plan and SERP expense, following the acquisition of Scripps Networks, were as follows.

|   | Six Months<br>Ended June<br>30, 2018 |       |
|---|--------------------------------------|-------|
|   | Pension<br>Plan                      | SERP  |
| Discount rate                           | 3.70%                                | 3.41% |
| Long-term rate of return on plan assets | 7.50%                                | N/A   |
| Rate of compensation increases          | 3.56%                                | 3.21% |

| Assumption                              | Description   |
|---|---|
| Discount rate                           | Based on a bond portfolio approach that includes securities rated Aa or better with maturities matching the Company's expected benefit payments from the plans.   |
| Long-term rate of return on plan assets | Based on the weighted-average expected rate of return and capital market forecasts for each asset class employed and also considers the Company's historical compounded return on plan assets for 10 and 15 year periods. |
| Increase in compensation levels         | Based on actual past experience and the near-term outlook.  |
| Mortality                               | RP 2014 mortality tables adjusted and projected using the scale MP-2017 mortality improvement rates.  |



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## NOTE 13. INCOME TAXES

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

|  | Three Months Ended June 30, 2018 |       | Six Months Ended June 30, 2018 |       | Three Months Ended June 30, 2017 |       | Six Months Ended June 30, 2017 |       |
|--|----------------------------------|-------|--------------------------------|-------|----------------------------------|-------|--------------------------------|-------|
| U.S. federal statutory income tax provision              | \$77                             | 21 %  | \$165                          | 35 %  | \$73                             | 21 %  | \$262                          | 35 %  |
| State and local income taxes, net of federal tax benefit | 13                               | 3 %   | 8                              | 2 %   | 5                                | 2 %   | 11                             | 2 %   |
| Effect of foreign operations                             | 11                               | 3 %   | (24)                           | (5) % | 15                               | 4 %   | (39)                           | (5) % |
| Domestic production activity deductions                  | —                                | — %   | (14)                           | (3) % | —                                | — %   | (22)                           | (3) % |
| Change in uncertain tax positions                        | 25                               | 7 %   | —                              | — %   | 27                               | 7 %   | 1                              | — %   |
| Renewable energy investments tax credits (See Note 3)    | (3)                              | (1) % | (40)                           | (9) % | (3)                              | (1) % | (66)                           | (9) % |
| U.S. legislative changes                                 | —                                | — %   | —                              | — %   | (19)                             | (5) % | —                              | — %   |
| Noncontrolling interest adjustment                       | (4)                              | (1) % | —                              | — %   | (4)                              | (1) % | —                              | — %   |
| Other, net   | 4                                | 1 %   | (2)                            | — %   | 9                                | 2 %   | 1                              | — %   |
| Income tax expense                                       | \$123                            | 33 %  | \$93                           | 20 %  | \$103                            | 29 %  | \$148                          | 20 %  |

On December 22, 2017, new federal tax reform legislation ("TCJA") was enacted in the United States, resulting in significant changes from previous tax law. The TCJA revised the U.S. corporate income tax most significantly for Discovery by lowering the statutory corporate tax rate from 35% to 21% and reinstating bonus depreciation that will allow for full expensing of qualified property, for property placed in service before 2023, including qualified films, such as content produced by the Company. The TCJA also eliminated or significantly amended certain deductions (interest, domestic production activities deduction and executive compensation). The TCJA fundamentally changed taxation of multinational entities by moving from a system of worldwide taxation with deferral to a hybrid territorial system, featuring a participation exemption regime with current taxation of certain foreign income. Included in the international provisions was the enactment of a minimum tax on low-taxed foreign earnings, and new measures to deter base erosion and promote U.S. production. Notwithstanding the U.S. taxation of these amounts, we intend to continue to invest most or all of these earnings, as well as our capital in these subsidiaries, indefinitely outside of the U.S.

Based on our preliminary assessment of the TCJA impact, we recognized a one-time, provisional net tax benefit of \$44 million in the fourth quarter of 2017 related to: the deemed repatriation tax on post-1986 accumulated earnings and profits, the deferred tax rate change effect of the new law, gross foreign tax credit carryforwards and related valuation allowances to offset foreign tax credit carryforwards. Our 2017 US federal income tax return will not be finalized until later in 2018, and while historically this process has resulted in offsetting changes in estimates in current and deferred taxes for items which are timing related, the reduction of the US tax rate will result in adjustments to our income tax provision when recorded. Given the substantial changes to the Internal Revenue Code as a result of the TCJA, our estimated financial impacts are subject to further analysis, interpretation and clarification of the new law, which could result in changes to our estimates in future quarters in 2018. We did not make an adjustment during the three and six months ended June 30, 2018 to our provisional estimate recognized in 2017. However, adjustments may be required in future periods.

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, the impact of these audits on any of the reserves 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.

The Company's reserves for uncertain tax positions as of June 30, 2018 and December 31, 2017 totaled \$410 million and \$189 million, respectively. The uncertain tax positions balance as of June 30, 2018 includes \$188 million related to Scripps Networks upon the acquisition. 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 \$49 million within the next twelve months as a result of ongoing audits, lapses of statutes of limitations or regulatory developments.

As of June 30, 2018 and December 31, 2017, the Company had accrued approximately \$57 million and \$21 million, respectively, of total interest and penalties payable related to unrecognized tax benefits. The interest and penalties payable balance



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as of June 30, 2018 includes \$32 million carried over from Scripps Networks' financial information upon the acquisition. The Company recognizes interest and penalties related to unrecognized tax benefits as a component of income tax expense.

NOTE 14. EARNINGS PER SHARE

In calculating earnings per share, the Company follows the two-class method, which distinguishes between classes of securities based on the proportionate participation rights of each security type in the Company's undistributed income. The Company's Series A, B and C common stock and the Series C-1 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, Inc.

Pursuant to the Exchange Agreement with Advance/Newhouse, Discovery issued newly designated shares of Series A-1 and Series C-1 preferred stock in exchange for all outstanding shares of Discovery's Series A and Series C convertible participating preferred stock. (See Note 9.) The Exchange is treated as a reverse stock split and the Company has recast historical basic and diluted earnings per share available to Series C-1 preferred stockholders (previously Series C preferred stockholders). Prior to the Exchange, Series C convertible preferred stock was convertible into Series C common stock at a conversion rate of 2.0 shares of Series C common stock for each share of Series C convertible preferred stock. Following the exchange, the Series C-1 preferred stock may be converted into Series C common stock at a conversion rate of 19.3648 shares of Series C common stock for each share of Series C-1 preferred stock. As such, the Company has retrospectively restated basic and diluted earnings per share information for Discovery's Series C-1 preferred stock for the three and six months ended June 30, 2017. The Exchange did not impact historical basic and diluted earnings per share attributable to the Company's Series A, B and C common stockholders.

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

|   | Three<br>Months<br>Ended June<br>30, |       | Six Months<br>Ended June<br>30, |       |
|---|--------------------------------------|-------|---------------------------------|-------|
|   | 2018                                 | 2017  | 2018                            | 2017  |
| Numerator:  |                                      |       |                                 |       |
| Net income  | \$244                                | \$380 | \$247                           | \$601 |
| Less:   |                                      |       |                                 |       |
| Allocation of undistributed income to Series A-1 convertible preferred stock  | (21 )                                | (46 ) | (22 )                           | (72 ) |
| Net income attributable to noncontrolling interests   | (23 )                                | —     | (28 )                           | —     |
| Net income attributable to redeemable noncontrolling interests  | (5 )                                 | (6 )  | (11 )                           | (12 ) |
| Redeemable noncontrolling interest adjustments to redemption value  | (6 )                                 | —     | (6 )                            | —     |
| Net income allocated to Discovery, Inc. Series A, B and C common and Series C-1 convertible preferred stockholders for basic net income per share | \$189                                | \$328 | \$180                           | \$517 |

Allocation of net income to Discovery, Inc. Series A, B and C common stockholders and Series C-1 convertible preferred stockholders for basic net income per share:

|  |       |       |       |       |
|--|-------|-------|-------|-------|
| Series A, B and C common stockholders  | 155   | 250   | 145   | 393   |
| Series C-1 convertible preferred stockholders  | 34    | 78    | 35    | 124   |
| Total  | 189   | 328   | 180   | 517   |
| Add:   |       |       |       |       |
| Allocation of undistributed income to Series A-1 convertible preferred stockholders                            | 21    | 46    | 22    | 72    |
| Net income allocated to Discovery, Inc. Series A, B and C common stockholders for diluted net income per share | \$210 | \$374 | \$202 | \$589 |

Net income allocated to Discovery, Inc. Series C-1 convertible preferred stockholders for diluted net income per share is included in net income allocated to Discovery, Inc. Series A, B and C common stockholders for diluted net income per share. For the three months ended June 30, 2018 and 2017, net income allocated to Discovery, Inc. Series C-1 convertible preferred stockholders used to calculate diluted net income per share was \$34 million and \$78 million, respectively. For the six months ended June 30, 2018 and 2017, net income allocated to Discovery, Inc. Series C-1 convertible preferred stockholders used to calculate diluted net income per share was \$35 million and \$124 million, respectively.

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

|   | Three<br>Months<br>Ended<br>June 30,<br>2018 | Three<br>Months<br>Ended<br>June 30,<br>2017 | Six<br>Months<br>Ended<br>June 30,<br>2018 | Six<br>Months<br>Ended<br>June 30,<br>2017 |
|---|--|--|--|--|
| Denominator — weighted average:                       |  |  |  |  |
| Series A, B and C common shares outstanding — basic   | 523  | 384  | 473  | 387  |
| Impact of assumed preferred stock conversion          | 187  | 192  | 187  | 193  |
| Dilutive effect of share-based awards                 | 2  | 2  | 1  | 3  |
| Series A, B and C common shares outstanding — diluted | 712  | 578  | 661  | 583  |

Series C-1 convertible preferred stock outstanding — basic and diluted 6 6 6 6

The weighted average number of diluted shares outstanding adjusts the weighted average number of shares of Series A, B and C common stock outstanding for the potential dilution that would occur if common stock equivalents, including convertible preferred stock and share-based awards, were converted into common stock or exercised, calculated using the treasury stock method. Series A, B and C diluted common stock includes the impact of the conversion of Series A-1 preferred stock, the impact of the conversion of Series C-1 preferred stock, and the impact of share-based compensation to the extent it is not anti-dilutive. Prior to the Exchange, Series C convertible preferred stock was convertible into Series C common stock at a conversion rate of 2.0 shares of Series C common stock for each share of Series C convertible preferred stock. Following the Exchange, the Series C-1 preferred stock may be converted into Series C common stock at a conversion rate of 19.3648 shares of Series C common stock for each share of Series C-1 preferred stock.

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

|   | Three Months<br>Ended June<br>30,<br>2018 |         | Six Months<br>Ended June<br>30,<br>2018 |         |
|---|---|---------|---|---------|
| Basic net income per share allocated to Discovery, Inc. Series A, B and C common and Series C-1 convertible preferred stockholders: |   |         |   |         |
| Series A, B and C common stockholders   | \$0.30                                    | \$0.65  | \$0.31                                  | \$1.02  |
| Series C-1 convertible preferred stockholders   | \$5.73                                    | \$12.54 | \$5.93                                  | \$19.65 |

Diluted net income per share allocated to Discovery, Inc. Series A, B and C common and Series C-1 convertible preferred stockholders:

|   |        |         |        |         |
|---|--------|---------|--------|---------|
| Series A, B and C common stockholders         | \$0.30 | \$0.64  | \$0.31 | \$1.01  |
| Series C-1 convertible preferred stockholders | \$5.72 | \$12.50 | \$5.92 | \$19.56 |

Earnings per share amounts may not recalculate due to rounding. The computation of the diluted earnings per share of Series A, B and C common stockholders assumes the conversion of Series A-1 and C-1 convertible preferred stock, while the diluted earnings per share amounts of Series C-1 convertible preferred stock does not assume conversion of those shares.

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

|  | Three<br>Months<br>Ended<br>June 30,<br>2018 |    | Six<br>Months<br>Ended<br>June 30,<br>2017 |    |
|--|--|----|--|----|
| Anti-dilutive stock options and RSUs                   | 11   | 11 | 12   | 10 |
| PRSUs whose performance targets have not been achieved | 2  | 1  | 2  | 1  |

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

NOTE 15. SUPPLEMENTAL DISCLOSURES

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

Accrued Liabilities

|   | June 30, December 31, |          |
|---|-----------------------|----------|
|   | 2018                  | 2017     |
| Accrued payroll and related benefits                    | \$ 421                | \$ 535   |
| Content rights payable                                  | 304                   | 219      |
| Accrued interest  | 150                   | 148      |
| Accrued income taxes                                    | 38                    | 45       |
| Current portion of share-based compensation liabilities | 28                    | 12       |
| Other accrued liabilities                               | 532                   | 350      |
| Total accrued liabilities                               | \$ 1,473              | \$ 1,309 |
| Other Expense, net                                      |                       |          |

|   | Three<br>Months<br>Ended June<br>30,<br>2018 |        | Six Months<br>Ended June<br>30,<br>2017 |        |
|---|--|--------|---|--------|
| Foreign currency losses, net  | \$(47)                                       | \$(26) | \$(51)                                  | \$(35) |
| Gain (loss) on derivative instruments, net  | 5  | 1      | 10                                      | (2)    |
| Change in the value of common stock investments with readily determinable fair value <sup>(a)</sup> | (5)  | —      | (43)                                    | —      |
| Interest income <sup>(b)</sup>  | —  | —      | 15                                      | —      |
| Other income, net   | —  | 1      | —                                       | —      |
| Total other expense, net  | \$(47)                                       | \$(24) | \$(69)                                  | \$(37) |

<sup>(a)</sup> As of January 1, 2018, upon adoption of ASU 2016-01, equity investments with readily determinable fair value for which the Company has the intent to retain the investment are measured at fair value, with unrealized gains and losses recorded in other expense, net. (See Notes 1 and 3.)

<sup>(b)</sup> Interest income for the six months ended June 30, 2018 is comprised primarily of interest on proceeds from the issuance of senior notes used to fund the acquisition of Scripps Networks. As of June 30, 2018, the Company had liquidated and utilized the proceeds in the acquisition of Scripps Networks.

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## Share-Based Plan Proceeds, net

Share-based plan payments, net in the statement of cash flows consisted of the following (in millions).

|   | Six Months Ended June 30, |          |
|---|---------------------------|----------|
|   | 2018                      | 2017     |
| Tax settlements associated with share-based plans                           | \$ (17 )                  | \$ (30 ) |
| Proceeds from issuance of common stock in connection with share-based plans | 43                        | 41       |
| Total share-based plan proceeds, net  | \$ 26                     | \$ 11    |

## Supplemental Cash Flow Information

|   | Six Months Ended June 30, |        |
|---|---------------------------|--------|
|   | 2018                      | 2017   |
| Cash paid for taxes, net                              | \$ 119                    | \$ 199 |
| Cash paid for interest, net                           | 381                       | 184    |
| Non-cash investing and financing activities:          |                           |        |
| Equity issued for the acquisition of Scripps Networks | 3,218                     | —      |
| Accrued purchases of property and equipment           | 12                        | 18     |
| Assets acquired under capital lease arrangements      | 94                        | 38     |

## NOTE 16. RELATED PARTY TRANSACTIONS

In the normal course of business, the Company enters into transactions with related parties. Related parties include entities that share common directorship, such as Liberty Global plc (“Liberty Global”), Liberty Broadband Corporation (“Liberty Broadband”) and their subsidiaries and equity method investees (together the “Liberty Group”). Discovery’s Board of Directors includes Mr. Malone, who is Chairman of the Board of Liberty Global and beneficially owns approximately 27% of the aggregate voting power with respect to the election of directors of Liberty Global. Mr. Malone is also Chairman of the Board of Liberty Broadband and beneficially owns approximately 46% of the aggregate voting power with respect to the election of directors of Liberty Broadband. The majority of the revenue earned from the Liberty Group relates to multi-year network distribution arrangements. Related party transactions also include revenues and expenses for content and services provided to or acquired from equity method investees, such as All3Media, UKTV, nC+ and a Russian cable television business, or minority partners of consolidated subsidiaries, such as Hasbro and the Tribune Company.

The table below presents a summary of the transactions with related parties, including OWN, prior to the November 30, 2017 acquisition (in millions).

|  | Three Months Ended June 30, |        | Six Months Ended June 30, |        |
|--|-----------------------------|--------|---------------------------|--------|
|  | 2018                        | 2017   | 2018                      | 2017   |
| Revenues and service charges:          |                             |        |                           |        |
| Liberty Group                          | \$ 162                      | \$ 128 | \$ 307                    | \$ 254 |
| Equity method investees <sup>(a)</sup> | 49                          | 38     | 88                        | 72     |

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|                                    |         |        |         |        |
|------------------------------------|---------|--------|---------|--------|
| Other                              | 17      | 8      | 37      | 21     |
| Total revenues and service charges | \$228   | \$174  | \$432   | \$347  |
| Interest income                    | \$2     | \$3    | \$2     | \$7    |
| Expenses                           | \$(116) | \$(40) | \$(182) | \$(70) |

<sup>(a)</sup> The increase for the three and six months ended June 30, 2018 relates to revenues and service charges earned from related party entities following the acquisition of Scripps Networks.

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

|                                | June 30, December 31, |        |
|--------------------------------|-----------------------|--------|
|                                | 2018                  | 2017   |
| Receivables <sup>(b)</sup>     | \$ 153                | \$ 105 |
| Note receivable <sup>(c)</sup> | \$ 96                 | \$ —   |

<sup>(b)</sup> The increase in related party receivables was a result of the acquisition of Scripps Networks.

<sup>(c)</sup> Amount relates to a note receivable with UKTV, an equity method investee acquired in conjunction with the acquisition of Scripps Networks. (See Note 3.)

NOTE 17. COMMITMENTS, CONTINGENCIES, AND GUARANTEES

Commitments

The Company's contractual commitments increased significantly following the acquisition of Scripps Networks. Below are the Company's updated combined contractual payment commitments as of June 30, 2018, including by period (in millions).

| Year Ending December 31,      | Leases    |         |         |         | Total   |
|-------------------------------|-----------|---------|---------|---------|---------|
|                               | Operating | Capital | Content | Other   |         |
| 2018 (remaining six months)   | \$48      | \$31    | \$617   | \$281   | \$977   |
| 2019                          | 91        | 50      | 725     | 424     | 1,290   |
| 2020                          | 91        | 45      | 821     | 282     | 1,239   |
| 2021                          | 78        | 40      | 377     | 138     | 633     |
| 2022                          | 49        | 34      | 383     | 86      | 552     |
| Thereafter                    | 490       | 117     | 860     | 118     | 1,585   |
| Total minimum payments        | 847       | 317     | 3,783   | 1,329   | 6,276   |
| Amounts representing interest | —         | (38)    | —       | —       | (38)    |
| Total                         | \$847     | \$279   | \$3,783 | \$1,329 | \$6,238 |

The Company enters into multi-year lease arrangements for transponders, office space, studio facilities and other equipment. Most leases are not cancelable prior to their expiration.

Content purchase commitments are associated with third-party producers and sports associations for content that airs on the television networks. Production contracts generally require the purchase of a specified number of episodes with payments over the term of the license. Production contracts 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, the Company's commitments expire without obligation. The commitments disclosed above exclude content liabilities recognized on the consolidated balance sheet.

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 services. Some of these contracts 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, but do not include compensation contingent on future events.

Although the Company had funding commitments to equity method investees as of June 30, 2018, the Company may also provide uncommitted additional funding to its equity method investments in the future. (See Note 3.)

Contingencies

Put Rights

The Company has granted put rights to certain consolidated subsidiaries. Harpo, GoldenTree, Hasbro and J:COM have the right to require the Company to purchase their remaining noncontrolling interests in OWN, MTG, Discovery

Family and Discovery Japan, respectively. The Company recorded the carrying value of the noncontrolling interest in the equity associated

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with the put rights for OWN, MTG, Discovery Family and Discovery Japan as a component of redeemable noncontrolling interest in the amounts of \$56 million, \$121 million, \$206 million and \$27 million, respectively. (See Note 8.)

Legal Matters

The Company is party to various lawsuits and claims in the ordinary course of business, including claims related to employees, vendors, other business partners or patent issues. However, a determination as to the amount of the accrual required for such contingencies is highly subjective and requires judgment about future events. Although the outcome of these matters cannot be predicted with certainty and the impact of the final resolution of these matters on the Company's results of operations in a particular subsequent reporting period is not known, management does not believe that the resolution of these matters will have a material adverse effect on the Company's future consolidated financial position, future results of operations or cash flows. During the quarter ended June 30, 2018, the Company received written notification from tax authorities of an indirect tax claim stemming from an audit that commenced in 2017. A liability of \$74 million has been recorded as a measurement period adjustment to the provisional Scripps Networks purchase accounting. The Company intends to defend the matter vigorously and believes that the potential for material loss beyond the amount already provided is remote.

Guarantees

There were no guarantees recorded as of June 30, 2018 and December 31, 2017.

The Company may provide or receive indemnities intended to allocate business transaction risks. Similarly, the Company may remain contingently liable for certain obligations of a divested business in the event that a third party does not fulfill its obligations under an indemnification obligation. The Company records a liability for its indemnification obligations and other contingent liabilities when probable and estimable. There were no material amounts for indemnifications or other contingencies recorded as of June 30, 2018 and December 31, 2017.

NOTE 18. REPORTABLE SEGMENTS

The Company's operating segments are determined based on (i) financial information reviewed by its chief operating decision maker ("CODM"), the Chief Executive Officer ("CEO"), (ii) internal management and related reporting structure and (iii) the basis upon which the CEO makes resource allocation decisions. The Company's operating segments did not change as a result of the acquisition of Scripps Networks.

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

The Company evaluates the operating performance of its segments based on financial measures such as revenues and adjusted operating income before depreciation and amortization ("Adjusted OIBDA"). Adjusted OIBDA is defined as operating income excluding: (i) mark-to-market share-based compensation, (ii) depreciation and amortization, (iii) restructuring and other charges, (iv) certain impairment charges, (v) gains and losses on business and asset dispositions, (vi) certain inter-segment eliminations related to production studios, and (vii) third-party transaction costs directly related to the acquisition and integration of Scripps Networks. The Company uses this measure to assess the operating results and performance of its segments, perform analytical comparisons, identify strategies to improve performance and allocate resources to each segment. The Company believes Adjusted OIBDA is relevant to investors because it allows them to analyze the operating performance of each segment using the same metric management uses. The Company excludes mark-to-market share-based compensation, restructuring and other charges, certain impairment charges, gains and losses on business and asset dispositions and Scripps Networks transaction and integration costs from the calculation of Adjusted OIBDA due to their impact on comparability between periods. The Company also excludes depreciation of fixed assets and amortization of intangible assets, as these amounts do not represent cash payments in the current reporting period. Certain corporate expenses are excluded from segment results to enable executive management to evaluate segment performance based upon the decisions of segment executives. 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 GAAP. The tables below present summarized financial information for each of the Company's reportable segments, other operating segments and corporate and inter-segment eliminations (in millions).

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## Revenues

|                        | Three Months   |         | Six Months     |         |
|------------------------|----------------|---------|----------------|---------|
|                        | Ended June 30, |         | Ended June 30, |         |
|                        | 2018           | 2017    | 2018           | 2017    |
| U.S. Networks          | \$1,780        | \$890   | \$2,954        | \$1,719 |
| International Networks | 1,051          | 811     | 2,149          | 1,558   |
| Education and Other    | 14             | 44      | 49             | 81      |
| Total revenues         | \$2,845        | \$1,745 | \$5,152        | \$3,358 |

## Adjusted OIBDA

|  | Three Months   |       | Six Months     |         |
|--|----------------|-------|----------------|---------|
|  | Ended June 30, |       | Ended June 30, |         |
|  | 2018           | 2017  | 2018           | 2017    |
| U.S. Networks                            | \$983          | \$567 | \$1,635        | \$1,068 |
| International Networks                   | 336            | 236   | 473            | 430     |
| Education and Other                      | —              | 5     | 3              | (1 )    |
| Corporate and inter-segment eliminations | (105 )         | (91 ) | (200 )         | (177 )  |
| Total Adjusted OIBDA                     | \$1,214        | \$717 | \$1,911        | \$1,320 |

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

|  | Three Months   |       | Six Months     |         |
|--|----------------|-------|----------------|---------|
|  | Ended June 30, |       | Ended June 30, |         |
|  | 2018           | 2017  | 2018           | 2017    |
| Net income available to Discovery, Inc.                        | \$216          | \$374 | \$208          | \$589   |
| Net income attributable to redeemable noncontrolling interests | 5              | 6     | 11             | 12      |
| Net income attributable to noncontrolling interests            | 23             | —     | 28             | —       |
| Income tax expense   | 123            | 93    | 103            | 148     |
| Income before income taxes                                     | 367            | 473   | 350            | 749     |
| Other expense, net   | 47             | 24    | 69             | 37      |
| Loss from equity investees, net                                | 40             | 42    | 62             | 95      |
| Loss on extinguishment of debt                                 | —              | —     | —              | 54      |
| Interest expense   | 196            | 91    | 373            | 182     |
| Operating income   | 650            | 630   | 854            | 1,117   |
| (Gain) loss on disposition                                     | (84 )          | 4     | (84 )          | 4       |
| Restructuring and other charges                                | 187            | 8     | 428            | 32      |
| Depreciation and amortization                                  | 410            | 80    | 603            | 160     |
| Mark-to-market share-based compensation                        | 26             | (5 )  | 29             | 7       |
| Scripps Networks transaction and integration costs             | 25             | —     | 81             | —       |
| Total Adjusted OIBDA   | \$1,214        | \$717 | \$1,911        | \$1,320 |

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## Total Assets

|  | June 30, December 31, |           |
|--|-----------------------|-----------|
|  | 2018                  | 2017      |
| U.S. Networks                            | \$19,625              | \$ 4,127  |
| International Networks                   | 7,124                 | 5,187     |
| Education and Other                      | 268                   | 394       |
| Corporate and inter-segment eliminations | 6,475                 | 12,847    |
| Total assets                             | \$33,492              | \$ 22,555 |

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

## NOTE 19. RESTRUCTURING AND OTHER CHARGES

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

|                                       | Three Months Ended June 30, 2018 |      | Six Months Ended June 30, 2017 |       |
|---------------------------------------|----------------------------------|------|--------------------------------|-------|
|                                       | 2018                             | 2017 | 2018                           | 2017  |
| U.S. Networks                         | \$19                             | \$ — | \$53                           | \$ 4  |
| International Networks                | 146                              | 4    | 246                            | 21    |
| Education and Other                   | 1                                | —    | 1                              | 1     |
| Corporate                             | 21                               | 4    | 128                            | 6     |
| Total restructuring and other charges | \$187                            | \$ 8 | \$428                          | \$ 32 |

|                                       | Three Months Ended June 30, 2018 |      | Six Months Ended June 30, 2017 |       |
|---------------------------------------|----------------------------------|------|--------------------------------|-------|
|                                       | 2018                             | 2017 | 2018                           | 2017  |
| Restructuring charges                 | \$87                             | \$ 4 | \$251                          | \$ 28 |
| Other charges                         | 100                              | 4    | 177                            | 4     |
| Total restructuring and other charges | \$187                            | \$ 8 | \$428                          | \$ 32 |

Restructuring charges include contract terminations, employee terminations and facility closures. These charges result from activities to integrate Scripps Networks and establish an efficient cost structure. Contract-related restructuring charges include payments to terminate certain life of series production and music license contracts. Employee terminations relate to cost reduction efforts and management changes. Facility-related restructuring charges are recognized upon exiting all or a portion of a leased facility after meeting cease-use requirements. Other charges relate to content write-offs which resulted from a strategic review of content, primarily in the international networks segment, following the acquisition of Scripps Networks.

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

|                   | Contract Terminations | Employee Terminations | Total  |
|-------------------|-----------------------|-----------------------|--------|
| December 31, 2017 | \$ 1                  | \$ 42                 | \$43   |
| Net Accruals      | 50                    | 194                   | 244    |
| Cash Paid         | (29 )                 | (129 )                | (158 ) |

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June 30, 2018      \$ 22      \$ 107      \$129

Net accruals for the six months ended June 30, 2018 do not include \$7 million of Scripps Networks equity awards exchanged for Discovery shares as of March 6, 2018 recorded in APIC and included in restructuring charges for the six months ended June 30, 2018.

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NOTE 20. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

Overview

As of June 30, 2018 and December 31, 2017, most of the outstanding senior notes have been issued by DCL, a wholly owned subsidiary of the Company, pursuant to one or more Registration Statements on Form S-3 filed with the U.S. Securities and Exchange Commission ("SEC"). (See Note 6.) Each of the Company, DCL and/or Discovery Communications Holding LLC ("DCH") (collectively the "Issuers") have the ability to conduct registered offerings of debt securities.

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

On April 3, 2018, the Company completed a non-cash transaction in which \$2.3 billion aggregate principal amount of Scripps Networks outstanding debt was exchanged for Discovery senior notes (See Note 6). The exchanged Scripps Networks senior notes are fully and unconditionally guaranteed by Scripps Networks and the Company. During the three months ended June 30, 2018, the Company completed a series of senior note guaranty transactions and as a result as of June 30, 2018, the Company and Scripps Networks fully and unconditionally guarantee all of Discovery's senior notes on an unsecured basis, except for the \$243 million un-exchanged Scripps Networks Senior Notes. (See Note 6.) The condensed consolidated financial statements presented below reflect the addition of Scripps Networks as a guarantor as of and for the three months ended June 30, 2018. Prior to the debt exchange and for the quarter ended March 31, 2018, the Company presented Scripps Networks combined with its non-guarantor subsidiaries separately as other non-guarantor subsidiaries of Discovery.

Basis of Presentation

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

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

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

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

Condensed Consolidating Balance Sheet  
June 30, 2018  
(in millions)

|  | Discovery | Scripps<br>Networks | DCH       | DCL       | Non-Guarantor<br>Subsidiaries of<br>DCL | Other Non-<br>Guarantor<br>Subsidiaries of<br>Discovery | Reclassification<br>and<br>Eliminations | Discovery<br>and<br>Subsidiaries |
|--|-----------|---------------------|-----------|-----------|---|---|---|----------------------------------|
| <b>ASSETS</b>  |           |                     |           |           |   |   |   |                                  |
| Current assets:  |           |                     |           |           |   |   |   |                                  |
| Cash and cash equivalents  | \$ —      | \$ 47               | \$ —      | \$ 25     | \$ 246                                  | \$ 74   | \$ —                                    | \$ 392                           |
| Receivables, net   | —         | —                   | —         | 474       | 1,350                                   | 923   | —                                       | 2,747                            |
| Content rights, net  | —         | —                   | —         | 3         | 269                                     | 86  | —                                       | 358                              |
| Prepaid expenses and other<br>current assets                         | 20        | 53                  | 31        | 33        | 155                                     | 117   | —                                       | 409                              |
| Inter-company trade<br>receivables, net                              | —         | —                   | —         | 182       | —                                       | —   | (182                                    | ) —                              |
| Total current assets   | 20        | 100                 | 31        | 717       | 2,020                                   | 1,200   | (182                                    | ) 3,906                          |
| Investment in and<br>advances to subsidiaries                        | 7,918     | 13,795              | (5,945    | ) 6,494   | —                                       | (3,929  | ) (18,333                               | ) —                              |
| Noncurrent content rights,<br>net                                    | —         | —                   | —         | 676       | 1,576                                   | 1,006   | —                                       | 3,258                            |
| Assets held for sale   | —         | —                   | —         | 68        | —                                       | —   | —                                       | 68                               |
| Goodwill, net  | —         | —                   | —         | 3,678     | 3,316                                   | 6,125   | —                                       | 13,119                           |
| Intangible assets, net   | —         | —                   | —         | 256       | 1,377                                   | 8,735   | —                                       | 10,368                           |
| Equity method<br>investments, including<br>note receivable           | —         | 96                  | —         | 23        | 317                                     | 587   | —                                       | 1,023                            |
| Other noncurrent assets,<br>including property and<br>equipment, net | —         | —                   | 20        | 516       | 772                                     | 462   | (20                                     | ) 1,750                          |
| Total assets   | \$ 7,938  | \$ 13,991           | \$(5,894) | \$ 12,428 | \$ 9,378                                | \$ 14,186   | \$( 18,535                              | ) \$ 33,492                      |
| <b>LIABILITIES AND<br/>EQUITY</b>                                    |           |                     |           |           |   |   |   |                                  |
| Current liabilities:   |           |                     |           |           |   |   |   |                                  |
| Current portion of debt  | \$ —      | \$ —                | \$ —      | \$ 608    | \$ 27                                   | \$ 11   | \$ —                                    | \$ 646                           |
| Other current liabilities  | —         | 83                  | —         | 339       | 1,147                                   | 481   | —                                       | 2,050                            |
| Inter-company trade<br>payables, net                                 | —         | —                   | —         | —         | 182                                     | —   | (182                                    | ) —                              |
| Total current liabilities  | —         | 83                  | —         | 947       | 1,356                                   | 492   | (182                                    | ) 2,696                          |
| Noncurrent portion of debt   | —         | 241                 | —         | 16,858    | 544                                     | 40  | —                                       | 17,683                           |
| Other noncurrent liabilities   | 2         | 86                  | —         | 568       | 574                                     | 1,866   | (19                                     | ) 3,077                          |
| Total liabilities  | 2         | 410                 | —         | 18,373    | 2,474                                   | 2,398   | (201                                    | ) 23,456                         |
| Redeemable<br>noncontrolling interests                               | —         | —                   | —         | —         | 410                                     | —   | —                                       | 410                              |
| Equity attributable to<br>Discovery, Inc.                            | 7,936     | 13,581              | (5,894    | ) (5,945  | ) 6,494                                 | 11,788  | (20,024                                 | ) 7,936                          |



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|                              |          |           |           |          |          |           |             |           |
|------------------------------|----------|-----------|-----------|----------|----------|-----------|-------------|-----------|
| Noncontrolling interests     | —        | —         | —         | —        | —        | —         | 1,690       | 1,690     |
| Total equity                 | 7,936    | 13,581    | (5,894 )  | (5,945 ) | 6,494    | 11,788    | (18,334 )   | 9,626     |
| Total liabilities and equity | \$ 7,938 | \$ 13,991 | \$(5,894) | \$12,428 | \$ 9,378 | \$ 14,186 | \$(18,535 ) | \$ 33,492 |

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

Condensed Consolidating Balance Sheet  
December 31, 2017  
(in millions)

|  | Discovery | DCH      | DCL       | Non-Guarantor<br>Subsidiaries of<br>DCL | Other Non-<br>Guarantor<br>Subsidiaries of<br>Discovery | Reclassification<br>and<br>Eliminations | Discovery<br>and<br>Subsidiaries |
|--|-----------|----------|-----------|---|---|---|----------------------------------|
| <b>ASSETS</b>  |           |          |           |   |   |   |                                  |
| Current assets:  |           |          |           |   |   |   |                                  |
| Cash and cash equivalents                                      | \$ —      | \$ —     | \$6,800   | \$ 509                                  | \$ —  | \$ —                                    | \$ 7,309                         |
| Receivables, net   | —         | —        | 410       | 1,428                                   | —   | —                                       | 1,838                            |
| Content rights, net  | —         | —        | 4         | 406                                     | —   | —                                       | 410                              |
| Prepaid expenses and other current assets                      | 49        | 32       | 204       | 149                                     | —   | —                                       | 434                              |
| Inter-company trade receivables, net                           | —         | —        | 205       | —                                       | —   | (205)                                   | ) —                              |
| Total current assets   | 49        | 32       | 7,623     | 2,492                                   | —   | (205)                                   | ) 9,991                          |
| Investment in and advances to subsidiaries                     | 4,563     | 4,532    | 6,951     | —                                       | 3,056   | (19,102)                                | ) —                              |
| Noncurrent content rights, net                                 | —         | —        | 672       | 1,541                                   | —   | —                                       | 2,213                            |
| Goodwill, net  | —         | —        | 3,677     | 3,396                                   | —   | —                                       | 7,073                            |
| Intangible assets, net   | —         | —        | 259       | 1,511                                   | —   | —                                       | 1,770                            |
| Equity method investments, including note receivable           | —         | —        | 25        | 310                                     | —   | —                                       | 335                              |
| Other noncurrent assets, including property and equipment, net | —         | 20       | 364       | 809                                     | —   | (20)                                    | ) 1,173                          |
| Total assets   | \$ 4,612  | \$ 4,584 | \$ 19,571 | \$ 10,059                               | \$ 3,056  | \$ (19,327)                             | ) \$ 22,555                      |
| <b>LIABILITIES AND EQUITY</b>                                  |           |          |           |   |   |   |                                  |
| Current liabilities:   |           |          |           |   |   |   |                                  |
| Current portion of debt  | \$ —      | \$ —     | \$ 7      | \$ 23                                   | \$ —  | \$ —                                    | \$ 30                            |
| Other current liabilities                                      | —         | —        | 572       | 1,269                                   | —   | —                                       | 1,841                            |
| Inter-company trade payables, net                              | —         | —        | —         | 205                                     | —   | (205)                                   | ) —                              |
| Total current liabilities                                      | —         | —        | 579       | 1,497                                   | —   | (205)                                   | ) 1,871                          |
| Noncurrent portion of debt                                     | —         | —        | 14,163    | 592                                     | —   | —                                       | 14,755                           |
| Other noncurrent liabilities                                   | 2         | —        | 297       | 606                                     | 21  | (20)                                    | ) 906                            |
| Total liabilities  | 2         | —        | 15,039    | 2,695                                   | 21  | (225)                                   | ) 17,532                         |
| Redeemable noncontrolling interests                            | —         | —        | —         | 413                                     | —   | —                                       | 413                              |
| Total equity   | 4,610     | 4,584    | 4,532     | 6,951                                   | 3,035   | (19,102)                                | ) 4,610                          |
| Total liabilities and equity                                   | \$ 4,612  | \$ 4,584 | \$ 19,571 | \$ 10,059                               | \$ 3,056  | \$ (19,327)                             | ) \$ 22,555                      |

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

Condensed Consolidating Statement of Operations  
Three Months Ended June 30, 2018  
(in millions)

|   | Discovery | Scripps<br>Networks | DCH   | DCL    | Non-Guaranteed<br>Subsidiaries<br>DCL | Other<br>Non-<br>Guarantor<br>Subsidiaries<br>Discovery | Reclassification<br>and<br>Eliminations | Discovery<br>and<br>Subsidiaries |
|---|-----------|---------------------|-------|--------|---------------------------------------|---|---|----------------------------------|
| Revenues  | \$ —      | \$ —                | \$ —  | \$506  | \$ 1,385                              | \$ 961  | \$ (7 )                                 | \$ 2,845                         |
| Costs of revenues, excluding<br>depreciation and amortization     | —         | —                   | —     | 107    | 593                                   | 292   | 3                                       | 995                              |
| Selling, general and administrative                               | 5         | 1                   | —     | 87     | 417                                   | 187   | (10 )                                   | 687                              |
| Depreciation and amortization                                     | —         | —                   | —     | 11     | 100                                   | 299   | —                                       | 410                              |
| Restructuring and other charges                                   | 1         | —                   | —     | 16     | 137                                   | 35  | (2 )                                    | 187                              |
| Gain on disposition   | —         | —                   | —     | —      | (84 )                                 | —   | —                                       | (84 )                            |
| Total costs and expenses  | 6         | 1                   | —     | 221    | 1,163                                 | 813   | (9 )                                    | 2,195                            |
| Operating (loss) income   | (6 )      | (1 )                | —     | 285    | 222                                   | 148   | 2                                       | 650                              |
| Equity in earnings of subsidiaries                                | 222       | 82                  | 154   | 53     | —                                     | 103   | (614 )                                  | —                                |
| Interest income (expense)   | —         | 2                   | —     | (188 ) | (10 )                                 | —   | —                                       | (196 )                           |
| Income (loss) from equity investees,<br>net                       | —         | —                   | —     | 1      | (46 )                                 | 5   | —                                       | (40 )                            |
| Other income (expense), net                                       | —         | 1                   | —     | 73     | (82 )                                 | (38 )   | (1 )                                    | (47 )                            |
| Income before income taxes  | 216       | 84                  | 154   | 224    | 84                                    | 218   | (613 )                                  | 367                              |
| Income tax benefit (expense)                                      | 1         | —                   | —     | (70 )  | (26 )                                 | (28 )   | —                                       | (123 )                           |
| Net income  | 217       | 84                  | 154   | 154    | 58                                    | 190   | (613 )                                  | 244                              |
| Net income attributable to<br>noncontrolling interests            | —         | —                   | —     | —      | —                                     | —   | (23 )                                   | (23 )                            |
| Net income attributable to<br>redeemable noncontrolling interests | —         | —                   | —     | —      | —                                     | —   | (5 )                                    | (5 )                             |
| Net income available to Discovery,<br>Inc.                        | \$ 217    | \$ 84               | \$154 | \$154  | \$ 58                                 | \$ 190  | \$ (641 )                               | \$ 216                           |

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

Condensed Consolidating Statement of Operations  
Three Months Ended June 30, 2017  
(in millions)

|   | Discovery | DCH   | DCL   | Non-Guarantor<br>Subsidiaries<br>DCL | Other<br>Non-<br>Guarantor<br>Subsidiaries<br>Discovery | Reclassification<br>and<br>Eliminations | Discovery<br>and<br>Subsidiaries |   |
|---|-----------|-------|-------|--------------------------------------|---|---|----------------------------------|---|
| Revenues  | \$ —      | \$ —  | \$525 | \$ 1,224                             | \$ —  | \$ (4                                   | ) \$ 1,745                       |   |
| Costs of revenues, excluding depreciation<br>and amortization     | —         | —     | 112   | 522                                  | —   | —                                       | 634                              |   |
| Selling, general and administrative                               | 5         | —     | 56    | 332                                  | —   | (4                                      | ) 389                            |   |
| Depreciation and amortization                                     | —         | —     | 11    | 69                                   | —   | —                                       | 80                               |   |
| Restructuring and other charges                                   | —         | —     | 3     | 5                                    | —   | —                                       | 8                                |   |
| Loss on disposition   | —         | —     | —     | 4                                    | —   | —                                       | 4                                |   |
| Total costs and expenses  | 5         | —     | 182   | 932                                  | —   | (4                                      | ) 1,115                          |   |
| Operating (loss) income   | (5        | ) —   | 343   | 292                                  | —   | —                                       | 630                              |   |
| Equity in earnings of subsidiaries                                | 376       | 376   | 245   | —                                    | 251   | (1,248                                  | ) —                              |   |
| Interest expense  | —         | —     | (83   | ) (8                                 | ) —   | —                                       | (91                              | ) |
| Loss from equity investees, net                                   | —         | —     | —     | (42                                  | ) —   | —                                       | (42                              | ) |
| Other (expense) income, net                                       | —         | —     | (62   | ) 38                                 | —   | —                                       | (24                              | ) |
| Income before income taxes  | 371       | 376   | 443   | 280                                  | 251   | (1,248                                  | ) 473                            |   |
| Income tax benefit (expense)                                      | 3         | —     | (67   | ) (29                                | ) —   | —                                       | (93                              | ) |
| Net income  | 374       | 376   | 376   | 251                                  | 251   | (1,248                                  | ) 380                            |   |
| Net income attributable to redeemable<br>noncontrolling interests | —         | —     | —     | —                                    | —   | (6                                      | ) (6                             | ) |
| Net income available to Discovery, Inc.                           | \$ 374    | \$376 | \$376 | \$ 251                               | \$ 251  | \$ (1,254                               | ) \$ 374                         |   |

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

Condensed Consolidating Statement of Operations  
Six Months Ended June 30, 2018  
(in millions)

|   | Discovery | Scripps<br>Networks | DCH   | DCL    | Non-Guarantor<br>Subsidiaries<br>DCL | Other Non-<br>Guarantor<br>Subsidiaries<br>Discovery | Reclassification<br>and<br>Eliminations | Discovery<br>and<br>Subsidiaries |
|---|-----------|---------------------|-------|--------|--------------------------------------|--|---|----------------------------------|
| Revenues  | \$ —      | \$ —                | \$—   | \$994  | \$ 2,934                             | \$ 1,234   | \$ (10 )                                | \$ 5,152                         |
| Costs of revenues, excluding<br>depreciation and amortization     | —         | —                   | —     | 214    | 1,459                                | 384  | (2 )                                    | 2,055                            |
| Selling, general and administrative                               | 31        | —                   | —     | 167    | 853                                  | 253  | (8 )                                    | 1,296                            |
| Depreciation and amortization                                     | —         | —                   | —     | 28     | 193                                  | 382  | —                                       | 603                              |
| Restructuring and other charges                                   | 9         | —                   | —     | 59     | 235                                  | 127  | (2 )                                    | 428                              |
| Gain on disposition   | —         | —                   | —     | —      | (84 )                                | —  | —                                       | (84 )                            |
| Total costs and expenses  | 40        | —                   | —     | 468    | 2,656                                | 1,146  | (12 )                                   | 4,298                            |
| Operating (loss) income   | (40 )     | —                   | —     | 526    | 278                                  | 88   | 2                                       | 854                              |
| Equity in earnings of subsidiaries                                | 239       | 38                  | 225   | 62     | —                                    | 150  | (714 )                                  | —                                |
| Interest expense  | —         | (4 )                | —     | (345 ) | (22 )                                | (2 )   | —                                       | (373 )                           |
| Income (loss) from equity<br>investees, net                       | —         | —                   | —     | 1      | (77 )                                | 14   | —                                       | (62 )                            |
| Other income (expense), net                                       | —         | 2                   | —     | 49     | (78 )                                | (41 )  | (1 )                                    | (69 )                            |
| Income before income taxes  | 199       | 36                  | 225   | 293    | 101                                  | 209  | (713 )                                  | 350                              |
| Income tax benefit (expense)                                      | 9         | —                   | —     | (68 )  | (28 )                                | (16 )  | —                                       | (103 )                           |
| Net income  | 208       | 36                  | 225   | 225    | 73                                   | 193  | (713 )                                  | 247                              |
| Net income attributable to<br>noncontrolling interests            | —         | —                   | —     | —      | —                                    | —  | (28 )                                   | (28 )                            |
| Net income attributable to<br>redeemable noncontrolling interests | —         | —                   | —     | —      | —                                    | —  | (11 )                                   | (11 )                            |
| Net income available to Discovery,<br>Inc.                        | \$ 208    | \$ 36               | \$225 | \$225  | \$ 73                                | \$ 193   | \$ (752 )                               | \$ 208                           |

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

Condensed Consolidating Statement of Operations  
Six Months Ended June 30, 2017  
(in millions)

|   | Discovery | DCH   | DCL     | Non-Guarantor<br>Subsidiaries<br>DCL | Other<br>Non-<br>Guarantor<br>Subsidiaries<br>Discovery | Reclassification<br>and<br>Eliminations | Discovery<br>and<br>Subsidiaries |   |
|---|-----------|-------|---------|--------------------------------------|---|---|----------------------------------|---|
| Revenues  | \$ —      | \$—   | \$1,016 | \$ 2,349                             | \$ —  | \$ (7                                   | ) \$ 3,358                       |   |
| Costs of revenues, excluding depreciation<br>and amortization     | —         | —     | 220     | 1,021                                | —   | —                                       | 1,241                            |   |
| Selling, general and administrative                               | 9         | —     | 130     | 672                                  | —   | (7                                      | ) 804                            |   |
| Depreciation and amortization                                     | —         | —     | 23      | 137                                  | —   | —                                       | 160                              |   |
| Restructuring and other charges                                   | —         | —     | 19      | 13                                   | —   | —                                       | 32                               |   |
| Loss on disposition   | —         | —     | —       | 4                                    | —   | —                                       | 4                                |   |
| Total costs and expenses  | 9         | —     | 392     | 1,847                                | —   | (7                                      | ) 2,241                          |   |
| Operating (loss) income   | (9        | ) —   | 624     | 502                                  | —   | —                                       | 1,117                            |   |
| Equity in earnings of subsidiaries                                | 594       | 594   | 385     | —                                    | 396   | (1,969                                  | ) —                              |   |
| Interest expense  | —         | —     | (169    | ) (13                                | ) —   | —                                       | (182                             | ) |
| Loss on extinguishment of debt                                    | —         | —     | (54     | ) —                                  | —   | —                                       | (54                              | ) |
| Income (loss) from equity investees, net                          | —         | —     | 1       | (96                                  | ) —   | —                                       | (95                              | ) |
| Other (expense) income, net                                       | —         | —     | (89     | ) 52                                 | —   | —                                       | (37                              | ) |
| Income before income taxes  | 585       | 594   | 698     | 445                                  | 396   | (1,969                                  | ) 749                            |   |
| Income tax benefit (expense)                                      | 4         | —     | (104    | ) (48                                | ) —   | —                                       | (148                             | ) |
| Net income  | 589       | 594   | 594     | 397                                  | 396   | (1,969                                  | ) 601                            |   |
| Net income attributable to redeemable<br>noncontrolling interests | —         | —     | —       | —                                    | —   | (12                                     | ) (12                            | ) |
| Net income available to Discovery, Inc.                           | \$ 589    | \$594 | \$594   | \$ 397                               | \$ 396  | \$ (1,981                               | ) \$ 589                         |   |

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

Condensed Consolidating Statement of Comprehensive Income  
Three Months Ended June 30, 2018  
(in millions)

|  | Discovery | Scripps<br>Networks | DCH    | DCL    | Non-Guaranteed<br>Subsidiaries<br>DCL | Other<br>Non-Guaranteed<br>Subsidiaries<br>Discovery | Reclassification<br>and<br>Eliminations | Discovery<br>and<br>Subsidiaries |
|--|-----------|---------------------|--------|--------|---------------------------------------|--|---|----------------------------------|
| Net income   | \$ 217    | \$ 84               | \$ 154 | \$ 154 | \$ 58                                 | \$ 190   | \$ (613 )                               | \$ 244                           |
| Other comprehensive (loss) income<br>adjustments, net of tax:                  |           |                     |        |        |                                       |  |   |                                  |
| Currency translation   | (206 )    | (197 )              | (49 )  | (49 )  | (64 )                                 | (230 )   | 589                                     | (206 )                           |
| Derivatives  | 29        | —                   | 29     | 29     | 29                                    | 19   | (106 )                                  | 29                               |
| Comprehensive income (loss)  | 40        | (113 )              | 134    | 134    | 23                                    | (21 )  | (130 )                                  | 67                               |
| Comprehensive income attributable<br>to noncontrolling interests               | —         | —                   | —      | —      | —                                     | —  | (23 )                                   | (23 )                            |
| Comprehensive income attributable<br>to redeemable noncontrolling<br>interests | 2         | —                   | 2      | 2      | 2                                     | 1  | (14 )                                   | (5 )                             |
| Comprehensive income (loss)<br>attributable to Discovery, Inc.                 | \$ 42     | \$ (113 )           | \$ 136 | \$ 136 | \$ 25                                 | \$ (20 )   | \$ (167 )                               | \$ 39                            |

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

Condensed Consolidating Statement of Comprehensive Income  
Three Months Ended June 30, 2017  
(in millions)

|   | Discovery | DCH   | DCL   | Non-Guaranteed<br>Subsidiaries<br>DCL | Other<br>Non-Guarantor<br>Subsidiaries<br>Discovery | Reclassification<br>and<br>Eliminations | Discovery<br>and<br>Subsidiaries |
|---|-----------|-------|-------|---------------------------------------|---|---|----------------------------------|
| Net income  | \$ 374    | \$376 | \$376 | \$ 251                                | \$ 251  | \$ (1,248 )                             | \$ 380                           |
| Other comprehensive income (loss)<br>adjustments, net of tax:               |           |       |       |                                       |   |   |                                  |
| Currency translation  | 91        | 91    | 91    | 91                                    | 61  | (334 )                                  | 91                               |
| Available-for-sale securities   | 5         | 5     | 5     | 5                                     | 4   | (19 )                                   | 5                                |
| Derivatives   | (9 )      | (9 )  | (9 )  | (9 )                                  | (6 )  | 33                                      | (9 )                             |
| Comprehensive income  | 461       | 463   | 463   | 338                                   | 310   | (1,568 )                                | 467                              |
| Comprehensive income attributable to<br>redeemable noncontrolling interests | —         | —     | —     | —                                     | —   | (6 )                                    | (6 )                             |
| Comprehensive income attributable to<br>Discovery, Inc.                     | \$ 461    | \$463 | \$463 | \$ 338                                | \$ 310  | \$ (1,574 )                             | \$ 461                           |



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

Condensed Consolidating Statement of Comprehensive Income (Loss)  
Six Months Ended June 30, 2018  
(in millions)

|  | Discovery | Scripps<br>Networks | DCH    | DCL    | Non-Guaranteed<br>Subsidiaries<br>DCL | Other<br>Non-Guaranteed<br>Subsidiaries<br>Discovery | Reclassification<br>and<br>Eliminations | Discovery<br>and<br>Subsidiaries |
|--|-----------|---------------------|--------|--------|---------------------------------------|--|---|----------------------------------|
| Net income   | \$ 208    | \$ 36               | \$ 225 | \$ 225 | \$ 73                                 | \$ 193   | \$ (713 )                               | \$ 247                           |
| Other comprehensive (loss) income<br>adjustments, net of tax:                  |           |                     |        |        |                                       |  |   |                                  |
| Currency translation   | (203 )    | (177 )              | (26 )  | (26 )  | (41 )                                 | (194 )   | 464                                     | (203 )                           |
| Derivatives  | 24        | —                   | 24     | 24     | 24                                    | 16   | (88 )                                   | 24                               |
| Comprehensive income (loss)  | 29        | (141 )              | 223    | 223    | 56                                    | 15   | (337 )                                  | 68                               |
| Comprehensive income attributable<br>to noncontrolling interests               | —         | —                   | —      | —      | —                                     | —  | (28 )                                   | (28 )                            |
| Comprehensive income attributable<br>to redeemable noncontrolling<br>interests | —         | —                   | —      | —      | —                                     | —  | (11 )                                   | (11 )                            |
| Comprehensive income (loss)<br>attributable to Discovery, Inc.                 | \$ 29     | \$ (141 )           | \$ 223 | \$ 223 | \$ 56                                 | \$ 15  | \$ (376 )                               | \$ 29                            |

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

Condensed Consolidating Statement of Comprehensive Income (Loss)  
 Six Months Ended June 30, 2017  
 (in millions)

|   | Discovery | DCH   | DCL   | Non-Guaranteed<br>Subsidiaries<br>DCL | Other<br>Non-<br>Guarantor<br>Subsidiaries<br>Discovery | Reclassification<br>and<br>Eliminations | Discovery<br>and<br>Subsidiaries |
|---|-----------|-------|-------|---------------------------------------|---|---|----------------------------------|
| Net income  | \$ 589    | \$594 | \$594 | \$ 397                                | \$ 396  | \$ (1,969 )                             | \$ 601                           |
| Other comprehensive income (loss)<br>adjustments, net of tax:               |           |       |       |                                       |   |   |                                  |
| Currency translation  | 159       | 159   | 159   | 159                                   | 106   | (583 )                                  | 159                              |
| Available-for-sale securities   | 4         | 4     | 4     | 4                                     | 3   | (15 )                                   | 4                                |
| Derivatives   | (17 )     | (17 ) | (17 ) | (18 )                                 | (11 )   | 63                                      | (17 )                            |
| Comprehensive income  | 735       | 740   | 740   | 542                                   | 494   | (2,504 )                                | 747                              |
| Comprehensive income attributable to<br>redeemable noncontrolling interests | (1 )      | (1 )  | (1 )  | (1 )                                  | (1 )  | (8 )                                    | (13 )                            |
| Comprehensive income attributable to<br>Discovery, Inc.                     | \$ 734    | \$739 | \$739 | \$ 541                                | \$ 493  | \$ (2,512 )                             | \$ 734                           |

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

Condensed Consolidating Statement of Cash Flows  
Six Months Ended June 30, 2018 (in millions)

|   | Discovery | Scripps<br>Networks | DCH    | DCL     | Non-Guaranteed<br>Subsidiaries<br>DCL | Other<br>Non-<br>Guarantor<br>Subsidiaries<br>Discovery | Reclassified<br>and<br>Eliminations | Discovery<br>and<br>Subsidiaries |
|---|-----------|---------------------|--------|---------|---------------------------------------|---|-------------------------------------|----------------------------------|
| <b>Operating Activities</b>   |           |                     |        |         |                                       |   |                                     |                                  |
| Cash (used in) provided by operating activities                                   | \$ (100 ) | \$ (14 )            | \$ (8) | \$ 156  | \$ 405                                | \$ 277  | \$ —                                | \$ 716                           |
| <b>Investing Activities</b>   |           |                     |        |         |                                       |   |                                     |                                  |
| Business acquisitions, net of cash acquired                                       | (8,714 )  | 54                  | —      | —       | —                                     | 95  | —                                   | (8,565 )                         |
| Payments for investments  | —         | —                   | —      | (10 )   | (45 )                                 | 7   | —                                   | (48 )                            |
| Proceeds from dispositions, net of cash disposed                                  | —         | —                   | —      | —       | 107                                   | —   | —                                   | 107                              |
| Purchases of property and equipment   | —         | —                   | —      | (12 )   | (56 )                                 | (14 )   | —                                   | (82 )                            |
| Proceeds from derivative instruments, net   | —         | —                   | —      | —       | 1                                     | —   | —                                   | 1                                |
| Inter-company distributions, and other investing activities, net                  | —         | 7                   | —      | 8       | 5                                     | (8 )  | (8 )                                | 4                                |
| Cash (used in) provided by investing activities                                   | (8,714 )  | 61                  | —      | (14 )   | 12                                    | 80  | (8 )                                | (8,583 )                         |
| <b>Financing Activities</b>   |           |                     |        |         |                                       |   |                                     |                                  |
| Commercial paper borrowings, net  | —         | —                   | —      | 579     | —                                     | —   | —                                   | 579                              |
| Principal repayments of revolving credit facility                                 | —         | —                   | —      | —       | (50 )                                 | —   | —                                   | (50 )                            |
| Borrowings under term loan facilities   | —         | —                   | —      | 2,000   | —                                     | —   | —                                   | 2,000                            |
| Principal (repayments) borrowings of term loans                                   | —         | —                   | —      | (1,500) | —                                     | —   | —                                   | (1,500 )                         |
| Principal repayments of capital lease obligations                                 | —         | —                   | —      | (4 )    | (17 )                                 | (4 )  | —                                   | (25 )                            |
| Distributions to noncontrolling interests and redeemable noncontrolling interests | —         | —                   | —      | (19 )   | (2 )                                  | (38 )   | —                                   | (59 )                            |
| Share-based plan proceeds, net  | 26        | —                   | —      | —       | —                                     | —   | —                                   | 26                               |
| Borrowings under program financing line of credit                                 | —         | —                   | —      | 23      | —                                     | —   | —                                   | 23                               |
| Inter-company contributions and other financing activities, net                   | 8,788     | —                   | 8      | (7,996) | (589 )                                | (236 )  | 8                                   | (17 )                            |

## DISCOVERY, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

|  |       |    |   |         |       |       |     |         |
|--|-------|----|---|---------|-------|-------|-----|---------|
| Cash provided by (used in) financing activities              | 8,814 | —  | 8 | (6,917) | (658) | (278) | 8   | 977     |
| Effect of exchange rate changes on cash and cash equivalents | —     | —  | — | (22)    | (5)   | (27)  | ( ) | ( )     |
| Net change in cash and cash equivalents                      | —     | 47 | — | (6,775) | (263) | 74    | —   | (6,917) |
| Cash and cash equivalents, beginning of period               | —     | —  | — | 6,800   | 509   | —     | —   | 7,309   |
| Cash and cash equivalents, end of period                     | —     | 47 | — | 25      | 246   | 74    | —   | 392     |

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

Condensed Consolidating Statement of Cash Flows  
Six Months Ended June 30, 2017  
(in millions)

|  | Discovery | DCH    | DCL     | Non-Guaranteed<br>Subsidiaries<br>DCL | Non-Guaranteed<br>Subsidiaries<br>Discovery | Reclassification<br>and<br>Eliminations | Discovery<br>and<br>Subsidiaries |
|--|-----------|--------|---------|---------------------------------------|---|---|----------------------------------|
| <b>Operating Activities</b>  |           |        |         |                                       |   |   |                                  |
| Cash provided by (used in) operating activities                                    | \$ 37     | \$ (5) | \$ (22) | \$ 433                                | \$  | —                                       | \$ 443                           |
| <b>Investing Activities</b>  |           |        |         |                                       |   |   |                                  |
| Payments for investments   | —         | —      | (7 )    | (263 )                                | —   | —                                       | (270 )                           |
| Purchases of property and equipment  | —         | —      | (26 )   | (52 )                                 | —   | —                                       | (78 )                            |
| Distributions from equity method investees   | —         | —      | —       | 18                                    | —   | —                                       | 18                               |
| Proceeds from dispositions, net of cash disposed                                   | —         | —      | —       | 29                                    | —   | —                                       | 29                               |
| Proceeds from derivative instruments, net  | —         | —      | —       | 5                                     | —   | —                                       | 5                                |
| Other investing activities, net  | —         | —      | 27      | 3                                     | —   | (27 )                                   | 3                                |
| Cash used in investing activities  | —         | —      | (6 )    | (260 )                                | —   | (27 )                                   | (293 )                           |
| <b>Financing Activities</b>  |           |        |         |                                       |   |   |                                  |
| Commercial paper borrowings, net   | —         | —      | 25      | —                                     | —   | —                                       | 25                               |
| Borrowings under revolving credit facility   | —         | —      | 350     | —                                     | —   | —                                       | 350                              |
| Principal repayments of revolving credit facility                                  | —         | —      | (200)   | —                                     | —   | —                                       | (200 )                           |
| Borrowings from debt, net of discount and including premiums                       | —         | —      | 659     | —                                     | —   | —                                       | 659                              |
| Principal repayments of debt, including discount payment and premiums to par value | —         | —      | (650)   | —                                     | —   | —                                       | (650 )                           |
| Principal repayments of capital lease obligations                                  | —         | —      | (3 )    | (16 )                                 | —   | —                                       | (19 )                            |
| Repurchases of stock   | (501 )    | —      | —       | —                                     | —   | —                                       | (501 )                           |
| Cash settlement of common stock repurchase contracts                               | 58        | —      | —       | —                                     | —   | —                                       | 58                               |
| Distributions to redeemable noncontrolling interests                               | —         | —      | —       | (20 )                                 | —   | —                                       | (20 )                            |
| Share-based plan proceeds, net   | 11        | —      | —       | —                                     | —   | —                                       | 11                               |
| Inter-company contributions and other financing activities, net                    | 395       | 5      | (165)   | (270 )                                | —   | 27                                      | (8 )                             |
| Cash (used in) provided by financing activities                                    | (37 )     | 5      | 16      | (306 )                                | —   | 27                                      | (295 )                           |
| Effect of exchange rate changes on cash and cash equivalents                       | —         | —      | —       | 51                                    | —   | —                                       | 51                               |
| Net change in cash and cash equivalents  | —         | —      | (12 )   | (82 )                                 | —   | —                                       | (94 )                            |
| Cash and cash equivalents, beginning of period                                     | —         | —      | 20      | 280                                   | —   | —                                       | 300                              |
| Cash and cash equivalents, end of period   | \$ —      | \$ —   | \$ 8    | \$ 198                                | \$  | —                                       | \$ 206                           |

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

Management's discussion and analysis of financial condition and results of operations is a supplement to and should be read in conjunction with the accompanying consolidated financial statements and related notes. This section provides additional information regarding Discovery, Inc.'s ("Discovery," "Company," "we," "us," or "our") businesses, current developments, results of operations, cash flows and financial condition. Additional context can also be found in the 2017 Form 10-K.

### CAUTIONARY NOTE CONCERNING FORWARD-LOOKING STATEMENTS

Certain statements in this Quarterly Report on Form 10-Q constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding our business, marketing and operating strategies, integration of acquired businesses, new service offerings, financial prospects, anticipated sources and uses of capital and our acquisition of Scripps Networks. Words such as "anticipates," "estimates," "expects," "projects," "intends," "plans," "believes," and terms 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: changes in the distribution and viewing of television programming, including the expanded deployment of personal video recorders, subscription video on demand ("SVOD"), internet protocol television, mobile personal devices and personal tablets and their impact on television advertising revenue, as well as the development and proliferation of "skinny bundle" programming tiers; continued consolidation of distribution customers and production studios; acceleration of the decline in traditional cable subscribers; a failure to secure affiliate agreements or renewal of such agreements on less favorable terms; rapid technological changes; our ability to complete, integrate and obtain the anticipated benefits and synergies from our business combinations and acquisitions, including our acquisition of Scripps Networks, on a timely basis or at all; the inability of advertisers or affiliates to remit payment to us in a timely manner or at all; cybersecurity breaches or unauthorized access to our proprietary business data; general economic and business conditions; industry trends, including the timing of, and spending on, feature film, television and television commercial production; spending on domestic and foreign television advertising; disagreements with our distributors or other business partners over contract interpretation; fluctuations in foreign currency exchange rates and political unrest and regulatory changes in international markets, from events including Brexit; market demand for foreign first-run and existing content libraries; the regulatory and competitive environment of the industries in which we, and the entities in which we have interests, operate; uncertainties inherent in the development of new business lines and business strategies; uncertainties regarding the financial performance of our equity method investees; uncertainties associated with product and service development and market acceptance, including the development and provision of programming for new television and telecommunications technologies; future financial performance, including availability, terms and deployment of capital; the ability of suppliers and vendors to deliver products, equipment, software and services; our ability to achieve the efficiencies, savings and other benefits anticipated from our cost-reduction initiative; the outcome of any pending or threatened litigation; availability of qualified personnel; the possibility or duration of an industry-wide strike or other job action affecting a major entertainment industry union; changes in, or failure or inability to comply with, government regulations, including, without limitation, regulations of the Federal Communications Commission and adverse outcomes from regulatory proceedings; changes in income taxes due to regulatory changes, such as U.S. tax reform, 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; our significant level of debt; 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. These risks have the potential to impact the recoverability of the assets recorded on our balance sheets, including goodwill or other intangibles. For additional risk factors, refer to Item 1A, "Risk Factors," in the 2017 Form 10-K. These forward-looking statements and such risks, uncertainties and other factors speak only as of the date of this Quarterly Report, and we expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained herein, to reflect any change in our expectations with

regard thereto, or any other change in events, conditions or circumstances on which any such statement is based.

**BUSINESS OVERVIEW**

We are a global media company that provides content across multiple distribution platforms, including pay-TV, FTA and broadcast television, authenticated GO applications, 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, Food Network, HGTV, Investigation Discovery ("ID") and Velocity (known as Turbo outside of the U.S.) and Eurosport, a leading sports entertainment pay-TV programmer across Europe and Asia. We operate a production studio, and prior

to the sale of the Education Business on April 30, 2018, we sold curriculum-based education products and services (See Note 2 to the accompanying consolidated financial statements.)

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

Our content spans genres including survival, exploration, sports, general entertainment, home, food and travel, 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 network brands and International Networks, consisting primarily of international television network brands. In addition, Education and Other consists principally of a production studio, and prior to the sale of the Education Business on April 30, 2018, curriculum-based education products and services (See Note 2 to the accompanying consolidated financial statements.) Our segment presentation aligns with our management structure and the financial information management uses to make strategic and operating decisions, such as the allocation of resources and business performance assessments.

#### Scripps Networks

On March 6, 2018, Discovery acquired Scripps Networks pursuant to the Merger Agreement. Scripps Networks was a global media company with lifestyle-oriented content, such as home, food, and travel-related programming. The Scripps Networks portfolio of networks included HGTV, Food Network, Travel Channel, DIY Network, Cooking Channel, Great American Country and TVN S.A.'s ("TVN") portfolio of networks outside the United States. Additionally, outside the United States, Scripps Networks participated in UKTV, a joint venture with BBC Worldwide Limited (the "BBC"). The consideration for the acquisition of Scripps Networks consisted of: (i) for Scripps Networks shareholders that did not make an election or elected to receive the mixed consideration, \$65.82 in cash and 1.0584 shares of Discovery Series C common stock for each Scripps Networks share, (ii) for Scripps Networks shareholders that elected to receive the cash consideration, \$90.00 in cash for each Scripps Networks share, and (iii) for Scripps Networks shareholders that elected to receive the stock consideration, 3.9392 shares of Discovery Series C common stock for each Scripps Networks share, in accordance with the terms and conditions set forth in the Merger Agreement.

In connection with the acquisition of Scripps Networks, on September 21, 2017, Discovery Communications, LLC ("DCL") issued several series of senior notes to partially fund the acquisition of Scripps Networks with an aggregate principal amount of \$6.8 billion and entered into two term loan facilities with an aggregate principal amount of \$2.0 billion. The Company applied the acquisition method of accounting to Scripps Networks' business, whereby the excess of the fair value of the business over the fair value of identifiable net assets was allocated to goodwill.

#### U.S. Networks

U.S. Networks generated revenues of \$3.0 billion and Adjusted OIBDA of \$1.6 billion during the six months ended June 30, 2018, which represented 57% and 86% of our total consolidated revenues and Adjusted OIBDA, respectively. Our U.S. Networks segment owns and operates 17 national television networks, including fully distributed television networks such as Discovery Channel, TLC, Food Network, HGTV and Animal Planet.

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 distributors for licensed content, referred to as other distribution revenue; fees from advertising sold on our television



networks and digital content offerings, which include our authenticated GO applications; fees from providing sales representation, network distribution services; 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 mobile platform applications with live and on-demand access to award-winning shows and series from 16 U.S. networks in the Discovery portfolio: Food Network, HGTV, Discovery Channel, TLC, Animal Planet, ID, Travel Channel, the Oprah Winfrey Network ("OWN"), Velocity, Science Channel, Cooking Channel, DIY Network, Great American Country, American Heroes Channel, Destination America 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.

During the six months ended June 30, 2018, distribution, advertising and other revenues were 40%, 58% and 2%, respectively, of total revenues for this segment.

On November 30, 2017, the Company acquired from Harpo, Inc. ("Harpo") a controlling interest in OWN, increasing Discovery's ownership stake from 49.50% to 73.75%. OWN is a pay-TV network and website that provides adult lifestyle and entertainment content, which is focused on African American viewers. As a result of the transaction on November 30, 2017, the accounting for OWN was changed from an equity method investment to a consolidated subsidiary.

On September 25, 2017, the Company contributed its linear cable network focused on cars and motor sports, Velocity, to a new joint venture ("MTG"), with GoldenTree Asset Management L.P. ("GoldenTree"). GoldenTree's contributions to MTG included businesses from The Enthusiast Network, Inc. ("TEN"), primarily MotorTrend.com, Motor Trend YouTube channel and the Motor Trend OnDemand OTT service. The joint venture has a portfolio of digital content, social groups and live events and original content focused on the automotive audience. In exchange for their contributions, Discovery and GoldenTree received 67.5% and 32.5% ownership of the new joint venture, respectively.

#### International Networks

International Networks generated revenues of \$2.1 billion and Adjusted OIBDA of \$473 million during the six months ended June 30, 2018, which represented 42% and 25% 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, Food Network, HGTV, 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 June 30, 2018, International Networks operated more than 400 unique distribution feeds in more than 45 languages with channel feeds customized according to language needs and advertising sales opportunities. International Networks also has FTA networks in Europe and the Middle East and broadcast networks in Poland, Denmark, 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 71 networks, with as many as 14 networks distributed in any particular country or territory across approximately 220 countries and territories around the world.

International Networks pursues distribution across all television and other delivery platforms based on the specific dynamics of local markets and relevant commercial agreements.

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Effective January 1, 2018, we realigned our International Networks management reporting structure. The table below represents the reporting structures during the periods presented in the consolidated financial statements, excluding Scripps Networks' operations.

Reporting Structure effective January 1, 2018

Europe, Middle East and Africa ("EMEA"), includes the former CEEMEA, Southern Europe, Nordics and the U.K. Additionally, the grouping includes Australia and New Zealand, previously included as part of Asia-Pacific

Reporting Structure effective January 1, 2017

CEEMEA, expanded to include Belgium, the Netherlands and Luxembourg

Nordics

U.K.

Southern Europe

Latin America

Asia-Pacific

Latin America

Asia-Pacific, excluding Australia and New Zealand

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, internet protocol television ("IPTV") and over-the-top operators ("OTT"). 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 international markets results in long-term contractual distribution relationships with terms generally shorter than similar customers in the U.S. 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 other 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 all media 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.

During the six months ended June 30, 2018, distribution, advertising and other revenues were 50%, 40% and 10%, respectively, of total net revenues for this segment. For the six months ended June 30, 2018, FTA or broadcast networks generated 63% of International Networks' advertising revenue and pay-TV networks generated 37% of International Networks' advertising revenue.

International Networks' largest cost is content rights expense for localized programming disseminated via our 400 unique distribution feeds. While our International Networks segment maximizes the use of programming from U.S. Networks, we also develop local programming that is tailored to individual market preferences and license the rights to air films, television series and sporting events from third parties. International Networks amortizes the cost of capitalized content rights based on the proportion of current estimated revenue relative to the estimated remaining total lifetime revenue, 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. The expense for content acquired from U.S. Networks and content developed locally airing on the same network is attributed over the period of use similarly, as the pattern of expense varies by network. More than half of International Networks' content is expensed using an accelerated attribution pattern, while the remainder is expensed 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. While International Networks and U.S. Networks have similarities with respect to the nature of operations, the generation of revenue and the categories of expense, International Networks has lower segment margins due to lower economies of scale from being in approximately 220 markets requiring additional cost for localization to satisfy market variations. International Networks also include sports and FTA broadcast channels, which drive higher costs from sports rights and production and investment in broad entertainment programming for broadcast networks.



#### Education and Other

Education and Other generated revenues of \$49 million during the six months ended June 30, 2018, which represented 1% of our consolidated revenues.

On April 30, 2018, the Company sold an 88% controlling equity stake in its Education Business to Francisco Partners for cash of \$113 million and recorded a gain of \$84 million upon disposition. Education Business 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. Discovery retained a 12% ownership interest in the Education Business, which is accounted for as an equity method investment. (See Note 3 to the accompanying consolidated financial statements.) Discovery has long-term trade name license agreements with the Education Business that are royalty arrangements at fair value. The disposal is not accounted for as a discontinued operation, because the disposition does not represent a strategic shift that has a significant impact on the Company's operations and consolidated financial results. (See Note 2 to the accompanying consolidated financial statements.)

On April 28, 2017, the Company sold Raw and Betty to All3Media. All3Media is a U.K. based television, film and digital production and distribution company. The Company owns 50% of All3Media and accounts for its investment in All3Media under the equity method of accounting. Raw and Betty were components of the studios operating segment reported with Education and Other. (See Note 2 to the accompanying consolidated financial statements.) Other is comprised of our wholly-owned production studio, which provides services to our U.S. Networks and International Networks segments at cost.

## RESULTS OF OPERATIONS

The discussion below compares our actual and pro forma combined results for the three and six months ended June 30, 2018 to the three and six months ended June 30, 2017, respectively, as if the Transactions occurred on January 1, 2017. Management believes reviewing our actual operating results in addition to combined pro forma results is useful in identifying trends in, or reaching conclusions regarding, the overall operating performance of our businesses. Our combined U.S. Networks, International Networks and Corporate and Inter-Segment Eliminations pro forma information is based on the historical operating results of the respective businesses as applicable to each segment and includes adjustments directly attributable to the Transactions as if they had occurred on January 1, 2017, such as:

1. The impact of the purchase price allocation to the fair value of assets, liabilities, and noncontrolling interests, such as intangible amortization;
2. Adjustments to remove items associated with the Transactions that will not have a continuing impact on the combined entity, such as transaction costs and the impact of employee retention agreements; and
3. Changes to align accounting policies

Adjustments do not include costs related to integration activities, cost savings or synergies that have been or may be achieved by the combined businesses. Pro forma amounts are not necessarily indicative of what our results would have been had we operated the acquired businesses since January 1, 2017, and should not be taken as indicative of the Company's future consolidated results of operations.

Actual amounts for the three and six months ended June 30, 2018 include the results of operations for the Discovery and Scripps Networks, OWN and MTG businesses for the period since each respective transaction. Scripps Networks was acquired on March 6, 2018, OWN was consolidated on November 30, 2017 and MTG was consolidated on September 25, 2017.

## Consolidated Results of Operations

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

|  | Three Months Ended June 30,<br>2018 |                            |                          | 2017   |                            |                          | Actual   | Change |       | Pro Forma |                    |
|--|-------------------------------------|----------------------------|--------------------------|--------|----------------------------|--------------------------|----------|--------|-------|-----------|--------------------|
|  | Actual                              | Pro<br>Forma<br>Adjustment | Pro<br>Forma<br>Combined | Actual | Pro<br>Forma<br>Adjustment | Pro<br>Forma<br>Combined |          |        |       | Change    | Combined<br>Change |
|  |                                     |                            |                          |        |                            |                          | \$       | %      | \$    | %         |                    |
| Revenues:  |                                     |                            |                          |        |                            |                          |          |        |       |           |                    |
| Distribution   | \$1,186                             | \$ —                       | \$1,186                  | \$857  | \$ 277                     | \$ 1,134                 | \$329    | 38 %   | \$52  | 5 %       |                    |
| Advertising  | 1,563                               | 1                          | 1,564                    | 805    | 715                        | 1,520                    | 758      | 94 %   | 44    | 3 %       |                    |
| Other  | 96                                  | (2 )                       | 94                       | 83     | 32                         | 115                      | 13       | 16 %   | (21 ) | (18 )%    |                    |
| Total revenues   | 2,845                               | (1 )                       | 2,844                    | 1,745  | 1,024                      | 2,769                    | 1,100    | 63 %   | 75    | 3 %       |                    |
| Costs of revenues, excluding<br>depreciation and amortization        | 995                                 | 5                          | 1,000                    | 634    | 335                        | 969                      | 361      | 57 %   | 31    | 3 %       |                    |
| Selling, general and<br>administrative                               | 687                                 | (2 )                       | 685                      | 389    | 257                        | 646                      | 298      | 77 %   | 39    | 6 %       |                    |
| Depreciation and amortization  | 410                                 | (70 )                      | 340                      | 80     | 311                        | 391                      | 330      | NM     | (51 ) | (13 )%    |                    |
| Restructuring and other charges                                      | 187                                 | —                          | 187                      | 8      | —                          | 8                        | 179      | NM     | 179   | NM        |                    |
| (Gain) loss on disposition   | (84 )                               | —                          | (84 )                    | 4      | —                          | 4                        | (88 )    | NM     | (88 ) | NM        |                    |
| Total costs and expenses   | 2,195                               | (67 )                      | 2,128                    | 1,115  | 903                        | 2,018                    | 1,080    | 97 %   | 110   | 5 %       |                    |
| Operating income   | 650                                 | 66                         | 716                      | 630    | 121                        | 751                      | 20       | 3 %    | (35 ) | (5 )%     |                    |
| Interest expense   | (196 )                              |                            |                          | (91 )  |                            |                          | (105 )   | NM     |       |           |                    |
| Loss on extinguishment of debt                                       | —                                   |                            |                          | —      |                            |                          | —        | —      |       |           |                    |
| Loss from equity investees, net                                      | (40 )                               |                            |                          | (42 )  |                            |                          | 2        | 5 %    |       |           |                    |
| Other expense, net   | (47 )                               |                            |                          | (24 )  |                            |                          | (23 )    | (96 )% |       |           |                    |
| Income before income taxes   | 367                                 |                            |                          | 473    |                            |                          | (106 )   | (22 )% |       |           |                    |
| Income tax expense   | (123 )                              |                            |                          | (93 )  |                            |                          | (30 )    | (32 )% |       |           |                    |
| Net income   | 244                                 |                            |                          | 380    |                            |                          | (136 )   | (36 )% |       |           |                    |
| Net income attributable to<br>noncontrolling interests               | (23 )                               |                            |                          | —      |                            |                          | (23 )    | (100)% |       |           |                    |
| Net income attributable to<br>redeemable noncontrolling<br>interests | (5 )                                |                            |                          | (6 )   |                            |                          | 1        | 17 %   |       |           |                    |
| Net income available to<br>Discovery, Inc.                           | \$216                               |                            |                          | \$374  |                            |                          | \$ (158) | (42 )% |       |           |                    |

NM - Not meaningful



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|  | Six Months Ended June 30,<br>2018 |                                    |                          | 2017    |                                    |                          | Actual  | Change  | Pro Forma |        |
|--|-----------------------------------|------------------------------------|--------------------------|---------|------------------------------------|--------------------------|---------|---------|-----------|--------|
|  | Actual                            | Pro<br>Forma<br>Adjustments<br>(a) | Pro<br>Forma<br>Combined | Actual  | Pro<br>Forma<br>Adjustments<br>(a) | Pro<br>Forma<br>Combined |         |         | \$        | %      |
| Revenues:  |                                   |                                    |                          |         |                                    |                          |         |         |           |        |
| Distribution   | \$2,237                           | \$ 177                             | \$ 2,414                 | \$1,712 | \$ 555                             | \$ 2,267                 | \$525   | 31 %    | \$147     | 6 %    |
| Advertising  | 2,575                             | 426                                | 3,001                    | \$1,492 | 1,357                              | 2,849                    | 1,083   | 73 %    | 152       | 5 %    |
| Other  | 340                               | 19                                 | 359                      | 154     | 68                                 | 222                      | 186     | NM      | 137       | 62 %   |
| Total revenues   | 5,152                             | 622                                | 5,774                    | 3,358   | 1,980                              | 5,338                    | 1,794   | 53 %    | 436       | 8 %    |
| Costs of revenues, excluding<br>depreciation and amortization        | 2,055                             | 205                                | 2,260                    | 1,241   | 642                                | 1,883                    | 814     | 66 %    | 377       | 20 %   |
| Selling, general and<br>administrative                               | 1,296                             | 130                                | 1,426                    | 804     | 525                                | 1,329                    | 492     | 61 %    | 97        | 7 %    |
| Depreciation and<br>amortization                                     | 603                               | 64                                 | 667                      | 160     | 622                                | 782                      | 443     | NM      | (115)     | (15) % |
| Restructuring and other<br>charges                                   | 428                               | 10                                 | 438                      | 32      | —                                  | 32                       | 396     | NM      | 406       | NM     |
| (Gain) loss on disposition   | (84)                              | —                                  | (84)                     | 4       | —                                  | 4                        | (88)    | NM      | (88)      | NM     |
| Total costs and expenses   | 4,298                             | 409                                | 4,707                    | 2,241   | 1,789                              | 4,030                    | 2,057   | 92 %    | 677       | 17 %   |
| Operating income   | 854                               | 213                                | 1,067                    | 1,117   | 191                                | 1,308                    | (263)   | (24) %  | \$(241)   | (18) % |
| Interest expense   | (373)                             |                                    |                          | (182)   |                                    |                          | (191)   | NM      |           |        |
| Loss on extinguishment of<br>debt                                    | —                                 |                                    |                          | (54)    |                                    |                          | 54      | 100 %   |           |        |
| Loss from equity investees,<br>net                                   | (62)                              |                                    |                          | (95)    |                                    |                          | 33      | 35 %    |           |        |
| Other expense, net   | (69)                              |                                    |                          | (37)    |                                    |                          | (32)    | (86) %  |           |        |
| Income before income taxes   | 350                               |                                    |                          | 749     |                                    |                          | (399)   | (53) %  |           |        |
| Income tax expense   | (103)                             |                                    |                          | (148)   |                                    |                          | 45      | 30 %    |           |        |
| Net income   | 247                               |                                    |                          | 601     |                                    |                          | (354)   | (59) %  |           |        |
| Net income attributable to<br>noncontrolling interests               | (28)                              |                                    |                          | —       |                                    |                          | (28)    | (100) % |           |        |
| Net income attributable to<br>redeemable noncontrolling<br>interests | (11)                              |                                    |                          | (12)    |                                    |                          | 1       | 8 %     |           |        |
| Net income available to<br>Discovery, Inc.                           | \$208                             |                                    |                          | \$589   |                                    |                          | \$(381) | (65) %  |           |        |

(a) Certain updates were made to previously disclosed pro forma adjustments as a result of further information identified after May 10, 2018, the date our March 31, 2018 quarterly report on Form 10-Q was filed. These changes impact the costs of revenue, depreciation and amortization, and restructuring and other charges line items. The pro forma adjustments disclosed above are inclusive of these updates and therefore may not reconcile to previously disclosed amounts.

Revenues

Distribution revenue consists principally of fees from affiliates for distributing our linear networks, supplemented by revenue earned from SVOD content licensing and other emerging forms of digital distribution. Distribution revenue increased 38% and 31% for the three and six months ended June 30, 2018, respectively, primarily due to the impact of the Transactions. Excluding the impact of the Transactions and foreign currency fluctuations, distribution revenue increased 3% and 5% for the three and six months ended June 30, 2018, respectively. For the three months ended June

30, 2018 the increase was a result of an increase of 6% at International Networks. For the six months ended June 30, 2018 the increase was a result of increases of

75

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1% at U.S. Networks and 8% at International Networks. On a pro forma combined basis, distribution revenue increased 5% and 6% for the three and six months ended June 30, 2018, respectively. Excluding the impact of foreign currency fluctuations and on a pro forma combined basis, distribution revenue increased 3% and 4% for the three and six months ended June 30, 2018, respectively. The increase was a result of increases of 6% and 8% at International Networks for the three and six months ended June 30, 2018, respectively, with an increase of 1% at U.S. Networks also contributing to the change for the six months ended June 30, 2018.

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 increased 94% and 73% for the three and six months ended June 30, 2018, respectively, primarily due to the impact of the Transactions. Excluding the impact of the Transactions and foreign currency fluctuations, advertising revenue was consistent with the prior period for the three months ended June 30, 2018 and increased 3% for the six months ended June 30, 2018. The increase for the year to date period was a result of increases of 2% at U.S. Networks and 5% at International Networks. On a pro forma combined basis, advertising revenue increased 3% and 5% for the three and six months ended June 30, 2018, respectively. Excluding the impact of foreign currency fluctuations and on a pro forma combined basis, advertising revenue increased 1% and 3% for the three and six months ended June 30, 2018, respectively. The increase was a result of increases of 1% and 1% at U.S. Networks and 2% and 6% at International Networks for the three and six months ended June 30, 2018, respectively. Other revenue increased \$13 million and \$186 million for the three and six months ended June 30, 2018, respectively, partially due to the impact of the Transactions. Excluding the impact of the Transactions and foreign currency fluctuations, other revenue decreased \$25 million for the three months ended June 30, 2018 and increased \$113 million for the six months ended June 30, 2018. The decrease on a quarter to date basis was a result of decreases of \$30 million at Education and Other and \$6 million at U.S. Networks, partially offset by an increase of \$12 million at International Networks. On a year to date basis the increase was a result of an increase of \$157 million at International Networks, partially offset by decreases of \$32 million at Education and Other and \$9 million at U.S. Networks. Excluding the impact of foreign currency fluctuations and on a pro forma basis, other revenue decreased \$22 million and increased \$127 million for the three and six months ended June 30, 2018, respectively. For the three months ended June 30, 2018 the decrease was the result of a decrease of \$30 million at Education and Other, partially offset by an increase of \$13 million at International Networks. For the six months ended June 30, 2018 the increase was the result of an increase of \$165 million at International Networks, partially offset by a decrease of \$32 million at Education and Other.

Revenue for our segments is discussed separately below under the heading “Segment Results of Operations.”

#### Costs of Revenues

The Company's principal component of costs of revenues is content expense. Content expense includes television series, television specials, films, sporting events and digital products. The costs of producing a content asset and bringing that asset to market consist of film costs, participation costs, exploitation costs and manufacturing costs. Content rights expense excluding the impact of foreign currency fluctuations was \$731 million and \$463 million for the three months ended June 30, 2018 and 2017, respectively, and \$1,474 million and \$934 million for the six months ended June 30, 2018 and 2017, respectively. Costs of revenues increased 57% and 66% for the three and six months ended June 30, 2018, respectively. Excluding the impact of the Transactions and foreign currency fluctuations, costs of revenue increased 1% and 21%. The increase was a result of increases of 3% and 3% at U.S. Networks and 2% and 34% at International Networks for the three and six months ended June 30, 2018, respectively. On a pro forma combined basis, costs of revenues increased 3% and 20% for the three and six months ended June 30, 2018, respectively. Excluding the impact of foreign currency fluctuations and on a pro forma basis, costs of revenues increased 1% and 16%. The increase was a result of increases of 1% and 3% at U.S. Networks and 4% and 31% at International Networks for the three and six months ended June 30, 2018, respectively. On a pro forma basis and excluding the impacts of foreign currency, content expense was \$736 million and \$734 million for the three months ended June 30, 2018 and 2017, respectively, and \$1,632 million and \$1,449 million for the six months ended June 30, 2018 and 2017, 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 77% and 61% for the three and six months ended June 30, 2018, respectively, primarily due to the impact of the Transactions. Excluding the impact of the Transactions, directly related third-party transaction and planned integration costs and foreign currency fluctuations, selling, general and administrative expenses increased 9% and 7% for the three and six months ended June 30, 2018, respectively. The increase was due to increases of 7% and 3% at U.S. Networks, 3% and 10% at International Networks and 6% and 6% at Corporate, and to a lesser extent increases in mark-to-market share based compensation expense, partially offset by decreases of 64% and 41% at Education and Other, for the three and six months ended June 30, 2018, respectively. On a pro forma combined basis, selling, general and administrative expenses increased 6% and 7% for the three and six months ended June 30, 2018, respectively. Excluding the impact of foreign currency fluctuations and on a pro forma combined basis, selling, general and administrative expenses increased 4% for the three and six months ended June 30, 2018. The increases were primarily due to Scripps integration costs and to a lesser extent, increases in mark-to-market share based compensation expense, partially offset by decreases of 8% and 3% at Corporate for the three and six months ended June 30, 2018, respectively, with a decrease of 3% at International Networks also contributing to the decrease on quarter to date basis.

### Depreciation and Amortization

Depreciation and amortization expense includes depreciation of fixed assets and amortization of finite-lived intangible assets. Depreciation and amortization increased \$330 million and \$443 million for the three and six months ended June 30, 2018, respectively, primarily due to the impact of the Transactions. On a pro forma combined basis, depreciation and amortization expense decreased \$51 million and \$115 million for the three and six months ended June 30, 2018, primarily due to amortization related to the ad revenue backlog intangible included in the pro forma results for the three and six months ended June 30, 2017, which has a one-year useful life, and was therefore fully amortized on a pro forma basis in 2017.

During the three months ended June 30, 2018, an impairment loss of \$12 million was recorded upon the reclassification of the Company's Silver Spring headquarters to assets held for sale. The impairment loss is reflected as a component of depreciation and amortization. (See Note 4 to the accompanying consolidated financial statements.)

### Restructuring and Other Charges

Restructuring and other charges increased \$179 million and \$396 million for the three and six months ended June 30, 2018, respectively, primarily as a result of higher personnel-related termination costs for involuntary severance actions associated with the integration of Scripps Networks, content impairments associated with changes in programming strategies primarily in the international networks segment and costs associated with the termination of long-term programming arrangements. (See Note 19 to the accompanying consolidated financial statements.) On a pro forma combined basis, restructuring and other charges increased \$179 million and \$406 million for the three and six months ended June 30, 2018, respectively. We expect to incur additional restructuring and integration expenses related to employee and contract terminations, relocation from the Company's Silver Spring headquarters to New York City and costs related to content.

### (Gain) Loss on Disposition

We recorded an \$84 million gain for each of the three and six months ended June 30, 2018 due to the sale of a controlling stake of the Education Business on April 30, 2018, compared with a loss of \$4 million for the three and six months ended June 30, 2017 due to the disposition of the Raw and Betty production studios. (See Note 2 to the accompanying financial statements.)

### Interest Expense

Interest expense increased \$105 million and \$191 million for the three and six months ended June 30, 2018, respectively, primarily due to interest accrued on the senior notes issued on September 21, 2017 and term loans drawn on March 6, 2018, both used to effect the acquisition of Scripps Networks. (See Note 6 to the accompanying consolidated financial statements.)

### Loss from equity investees, net

Losses from our equity method investees decreased \$2 million and \$33 million for the three and six months ended June 30, 2018, respectively, primarily due to a reduction in losses from investments in limited liability companies that

sponsor renewable energy projects related to solar energy, and to a lesser extent inclusion of equity earnings as a result of the acquisition of Scripps Networks, partially offset by the absence of earnings from the Company's equity method investment in OWN. The decrease in losses was partially offset by impairments of \$19 million for the three months ended June 30, 2018 and \$24 million for the six months ended June 30, 2018. (See Note 3 to the accompanying consolidated financial statements.)

## Other Expense, net

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

|  | Three Months Ended June 30, |        | Six Months Ended June 30, |        |
|--|-----------------------------|--------|---------------------------|--------|
|  | 2018                        | 2017   | 2018                      | 2017   |
| Foreign currency losses, net   | \$(47)                      | \$(26) | \$(51)                    | \$(35) |
| Gain (loss) on derivative instruments, net   | 5                           | 1      | 10                        | (2)    |
| Change in the value of common stock investments with readily determinable fair value | (5)                         | —      | (43)                      | —      |
| Interest income  | —                           | —      | 15                        | —      |
| Other income, net  | —                           | 1      | —                         | —      |
| Total other expense, net   | \$(47)                      | \$(24) | \$(69)                    | \$(37) |

Total other expense, net increased \$23 million and \$32 million for the three and six months ended June 30, 2018, respectively. For the three and six months ended June 30, 2018 foreign currency losses increased, mostly related to exchange rate changes in the Polish Zloty, and to a lesser extent other European currencies, that impacted foreign currency monetary assets. For the six months ended June 30, 2018 the increase in other expenses was primarily due to the adoption of the recognition and measurement of financial instruments guidance on January 1, 2018, which requires the Company to record gains and losses on equity investments with readily determinable fair values in other expense, net. Previously, unrealized gains and losses were recorded in other comprehensive income. The losses were partially offset by interest income of \$15 million generated from the Company's short-term investment of a portion of the proceeds of the Company's \$6.8 billion in senior notes issued to fund the acquisition of Scripps Networks prior to the acquisition date. (See Note 1 and Note 3 to the accompanying consolidated financial statements.)

## Income Tax Expense

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

|  | Three Months Ended June 30, |       | Six Months Ended June 30, |       |
|--|-----------------------------|-------|---------------------------|-------|
|  | 2018                        | 2017  | 2018                      | 2017  |
| U.S. federal statutory income tax provision              | \$77                        | 21 %  | \$165                     | 35 %  |
| State and local income taxes, net of federal tax benefit | 13                          | 3 %   | 8                         | 2 %   |
| Effect of foreign operations                             | 11                          | 3 %   | (24)                      | (5) % |
| Domestic production activity deductions                  | —                           | — %   | (14)                      | (3) % |
| Change in uncertain tax positions                        | 25                          | 7 %   | —                         | — %   |
| Renewable energy investments tax credits (See Note 3)    | (3)                         | (1) % | (40)                      | (9) % |
| U.S. legislative changes                                 | —                           | — %   | (19)                      | (5) % |
| Noncontrolling interest adjustment                       | (4)                         | (1) % | —                         | — %   |
| Other, net   | 4                           | 1 %   | (2)                       | — %   |
| Income tax expense                                       | \$123                       | 33 %  | \$93                      | 20 %  |

During 2018, the decrease in income tax expense was primarily attributable to decreases in income in addition to the TCJA, which revised the U.S. corporate income tax rate from 35% to 21%, and a discrete tax benefit of \$19 million following U.S. legislative changes that extended the accelerated deduction of qualified film productions. These decreases were also partially offset by a reduction in benefits from investment tax credits from our renewable energy investments and provisions for uncertain tax positions. Excluding discrete items, the effective tax rates were 33% and 29% for the three and six months ended June 30, 2018, respectively, and 20% for each of the three and six months ended June 30, 2017, respectively.

## Segment Results of Operations

We evaluate the operating performance of our operating segments based on financial measures such as revenues and Adjusted OIBDA. Adjusted OIBDA is defined as operating income excluding: (i) mark-to-market share-based compensation,





(ii) depreciation and amortization, (iii) restructuring and other charges, (iv) certain impairment charges, (v) gains and losses on business and asset dispositions, (vi) certain inter-segment eliminations related to production studios and (vii) third-party transaction costs directly related to the acquisition and integration of Scripps Networks. 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 share-based compensation, restructuring and other charges, certain impairment charges, gains and losses on business and asset dispositions and Scripps Networks acquisition and integration costs from the calculation of Adjusted OIBDA due to their impact on comparability between periods. We also exclude the depreciation of fixed assets and amortization of intangible assets as these amounts do not represent cash payments in the current reporting period. Certain corporate expenses and inter-segment eliminations related to production studios are excluded from segment results to enable executive management to evaluate segment performance based upon the decisions of segment executives.

Adjusted OIBDA should be considered in addition to, but not a substitute for, operating income, net income and other measures of financial performance reported in accordance with US GAAP.

Additional financial information for our reportable segments is set forth in Note 18 to the accompanying consolidated financial statements.

The tables below present the calculation of total Adjusted OIBDA (in millions).

|  | Three Months<br>Ended June 30, |          |          |    |
|--|--------------------------------|----------|----------|----|
|  | 2018                           | 2017     | % Change |    |
| Revenues:  |                                |          |          |    |
| U.S. Networks  | \$1,780                        | \$890    | 100      | %  |
| International Networks                                     | 1,051                          | 811      | 30       | %  |
| Education and Other  | 14                             | 44       | (68)     | )% |
| Total revenues   | 2,845                          | 1,745    | 63       | %  |
| Costs of revenues, excluding depreciation and amortization | (995 )                         | (634 )   | 57       | %  |
| Selling, general and administrative <sup>(a)</sup>         | (636 )                         | (394 )   | 61       | %  |
| Adjusted OIBDA   | \$1,214                        | \$717    | 69       | %  |
|  | Six Months<br>Ended June 30,   |          |          |    |
|  | 2018                           | 2017     | % Change |    |
| Revenues:  |                                |          |          |    |
| U.S. Networks  | \$2,954                        | \$1,719  | 72       | %  |
| International Networks                                     | 2,149                          | 1,558    | 38       | %  |
| Education and Other  | 49                             | 81       | (40)     | )% |
| Total revenues   | 5,152                          | 3,358    | 53       | %  |
| Costs of revenues, excluding depreciation and amortization | (2,055 )                       | (1,241 ) | 66       | %  |
| Selling, general and administrative <sup>(a)</sup>         | (1,186 )                       | (797 )   | 49       | %  |
| Adjusted OIBDA   | \$1,911                        | \$1,320  | 45       | %  |

<sup>(a)</sup> Selling, general and administrative expenses exclude mark-to-market share-based compensation and third-party transaction costs directly related to the acquisition of Scripps Networks and integration costs.

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The tables below present our reconciliation of consolidated net income available to Discovery, Inc. to total Adjusted OIBDA and Adjusted OIBDA by segment (in millions).

|  | Three Months   |       |          |  |
|--|----------------|-------|----------|--|
|  | Ended June 30, |       |          |  |
|  | 2018           | 2017  | % Change |  |
| Net income available to Discovery, Inc.                        | \$216          | \$374 | (42 )%   |  |
| Net income attributable to redeemable noncontrolling interests | 5              | 6     | (17 )%   |  |
| Net income attributable to noncontrolling interests            | 23             | —     | 100 %    |  |
| Income tax expense   | 123            | 93    | 32 %     |  |
| Other expense, net   | 47             | 24    | 96 %     |  |
| Loss from equity investees, net                                | 40             | 42    | (5 )%    |  |
| Interest expense   | 196            | 91    | NM       |  |
| Operating income   | 650            | 630   | 3 %      |  |
| Restructuring and other charges                                | 187            | 8     | NM       |  |
| Depreciation and amortization                                  | 410            | 80    | NM       |  |
| Mark-to-market share-based compensation                        | 26             | (5 )  | NM       |  |
| Scripps Networks transaction and integration costs             | 25             | —     | 100 %    |  |
| (Gain) loss on disposition                                     | (84 )          | 4     | NM       |  |
| Total Adjusted OIBDA   | \$1,214        | \$717 | 69 %     |  |
| Adjusted OIBDA:  |                |       |          |  |
| U.S. Networks  | \$983          | \$567 | 73 %     |  |
| International Networks   | 336            | 236   | 42 %     |  |
| Education and Other  | —              | 5     | (100 )%  |  |
| Corporate and inter-segment eliminations                       | (105 )         | (91 ) | 15 %     |  |
| Total Adjusted OIBDA   | \$1,214        | \$717 | 69 %     |  |

|  | Six Months     |         |          |
|--|----------------|---------|----------|
|  | Ended June 30, |         |          |
|  | 2018           | 2017    | % Change |
| Net income available to Discovery, Inc.                        | \$208          | \$589   | (65 )%   |
| Net income attributable to redeemable noncontrolling interests | 11             | 12      | (8 )%    |
| Net income attributable to noncontrolling interests            | 28             | —       | 100 %    |
| Income tax expense   | 103            | 148     | (30 )%   |
| Other expense, net   | 69             | 37      | 86 %     |
| Loss from equity investees, net                                | 62             | 95      | (35 )%   |
| Loss on extinguishment of debt                                 | —              | 54      | (100 )%  |
| Interest expense   | 373            | 182     | NM       |
| Operating income   | 854            | 1,117   | (24 )%   |
| Restructuring and other charges                                | 428            | 32      | NM       |
| Depreciation and amortization                                  | 603            | 160     | NM       |
| Mark-to-market share-based compensation                        | 29             | 7       | NM       |
| Scripps Networks transaction and integration costs             | 81             | —       | 100 %    |
| (Gain) loss on disposition                                     | (84 )          | 4       | NM       |
| Total Adjusted OIBDA   | \$1,911        | \$1,320 | 45 %     |
| Adjusted OIBDA:  |                |         |          |
| U.S. Networks  | \$1,635        | \$1,068 | 53 %     |
| International Networks   | 473            | 430     | 10 %     |
| Education and Other  | 3              | (1 )    | NM       |
| Corporate and inter-segment eliminations                       | (200 )         | (177 )  | 13 %     |
| Total Adjusted OIBDA   | \$1,911        | \$1,320 | 45 %     |

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U.S. Networks

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

|  | Three Months Ended June 30, |                      |                    |        |                      |                    |               |        |                           |        |  |  |
|--|-----------------------------|----------------------|--------------------|--------|----------------------|--------------------|---------------|--------|---------------------------|--------|--|--|
|  | 2018                        |                      |                    |        |                      |                    | 2017          |        |                           |        |  |  |
|  | Actual                      | Pro Forma Adjustment | Pro Forma Combined | Actual | Pro Forma Adjustment | Pro Forma Combined | Actual Change |        | Pro Forma Combined Change |        |  |  |
|  |                             |                      |                    |        |                      | \$                 | %             | \$     | %                         |        |  |  |
| Revenues:  |                             |                      |                    |        |                      |                    |               |        |                           |        |  |  |
| Distribution   | \$654                       | \$ (1 )              | \$ 653             | \$400  | \$ 249               | \$ 649             | \$254         | 64 %   | \$4                       | 1 %    |  |  |
| Advertising  | 1,090                       | 1                    | 1,091              | 472    | 607                  | 1,079              | 618           | NM     | 12                        | 1 %    |  |  |
| Other  | 36                          | (1 )                 | 35                 | 18     | 20                   | 38                 | 18            | 100 %  | (3 )                      | (8 )%  |  |  |
| Total revenues   | 1,780                       | (1 )                 | 1,779              | 890    | 876                  | 1,766              | 890           | 100 %  | 13                        | 1 %    |  |  |
| Costs of revenues, excluding depreciation and amortization | (490 )                      | 1                    | (489 )             | (216 ) | (267 )               | (483 )             | (274 )        | NM     | (6 )                      | (1 )%  |  |  |
| Selling, general and administrative                        | (307 )                      | (1 )                 | (308 )             | (107 ) | (202 )               | (309 )             | (200 )        | NM     | 1                         | — %    |  |  |
| Total Adjusted OIBDA                                       | 983                         | (1 )                 | 982                | 567    | 407                  | 974                | 416           | 73 %   | 8                         | 1 %    |  |  |
| Mark-to-market share-based compensation                    | —                           | —                    | —                  | —      | 2                    | 2                  | —             | — %    | (2 )                      | (100)% |  |  |
| Depreciation and amortization                              | (295 )                      | 70                   | (225 )             | (6 )   | (283 )               | (289 )             | (289 )        | NM     | 64                        | 22 %   |  |  |
| Restructuring and other charges                            | (19 )                       | —                    | (19 )              | —      | —                    | —                  | (19 )         | (100)% | (19 )                     | (100)% |  |  |
| Scripps Networks transaction and integration costs         | (4 )                        | —                    | (4 )               | —      | —                    | —                  | (4 )          | (100)% | (4 )                      | (100)% |  |  |
| Inter-segment eliminations                                 | 2                           | —                    | 2                  | (2 )   | 7                    | 5                  | 4             | NM     | (3 )                      | (60 )% |  |  |
| Operating income   | \$667                       | \$ 69                | \$ 736             | \$559  | \$ 133               | \$ 692             | \$108         | 19 %   | \$44                      | 6 %    |  |  |

|  | Six Months Ended June 30, |                      |                    |        |                      |                    |               |        |                           |        |  |  |
|--|---------------------------|----------------------|--------------------|--------|----------------------|--------------------|---------------|--------|---------------------------|--------|--|--|
|  | 2018                      |                      |                    |        |                      |                    | 2017          |        |                           |        |  |  |
|  | Actual                    | Pro Forma Adjustment | Pro Forma Combined | Actual | Pro Forma Adjustment | Pro Forma Combined | Actual Change |        | Pro Forma Combined Change |        |  |  |
|  |                           |                      |                    |        |                      | \$                 | %             | \$     | %                         |        |  |  |
| Revenues:  |                           |                      |                    |        |                      |                    |               |        |                           |        |  |  |
| Distribution   | \$1,168                   | \$ 155               | \$ 1,323           | \$808  | \$ 500               | \$ 1,308           | \$360         | 45 %   | \$15                      | 1 %    |  |  |
| Advertising  | 1,717                     | 357                  | 2,074              | 877    | 1,168                | 2,045              | 840           | 96 %   | 29                        | 1 %    |  |  |
| Other  | 69                        | 6                    | 75                 | 34     | 43                   | 77                 | 35            | NM     | (2 )                      | (3 )%  |  |  |
| Total revenues   | 2,954                     | 518                  | 3,472              | 1,719  | 1,711                | 3,430              | 1,235         | 72 %   | 42                        | 1 %    |  |  |
| Costs of revenues, excluding depreciation and amortization | (811 )                    | (152 )               | (963 )             | (426 ) | (510 )               | (936 )             | (385 )        | (90 )% | (27 )                     | (3 )%  |  |  |
| Selling, general and administrative                        | (508 )                    | (111 )               | (619 )             | (225 ) | (404 )               | (629 )             | (283 )        | NM     | 10                        | 2 %    |  |  |
| Total Adjusted OIBDA                                       | 1,635                     | 255                  | 1,890              | 1,068  | 797                  | 1,865              | 567           | 53 %   | 25                        | 1 %    |  |  |
| Mark-to-market share-based compensation                    | —                         | —                    | —                  | —      | 2                    | 2                  | —             | — %    | (2 )                      | (100)% |  |  |
| Depreciation and amortization                              | (395 )                    | (44 )                | (439 )             | (14 )  | (568 )               | (582 )             | (381 )        | NM     | 143                       | 25 %   |  |  |
| Restructuring and other charges                            | (53 )                     | (6 )                 | (59 )              | (4 )   | —                    | (4 )               | (49 )         | NM     | (55 )                     | NM     |  |  |
|  | (4 )                      | —                    | (4 )               | —      | —                    | —                  | (4 )          | (100)% | (4 )                      | (100)% |  |  |

Scripps Networks  
 transaction and integration  
 costs

|                            |         |        |          |         |        |          |       |      |             |
|----------------------------|---------|--------|----------|---------|--------|----------|-------|------|-------------|
| Inter-segment eliminations | (1 )4   | 3      | (8 )15   | 7       | 7      | 88       | %     | (4 ) | (57 )%      |
| Operating income           | \$1,182 | \$ 209 | \$ 1,391 | \$1,042 | \$ 246 | \$ 1,288 | \$140 | 13   | % \$103 8 % |

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## Revenues

Distribution revenue increased 64% and 45% for the three and six months ended June 30, 2018, respectively, primarily due to the impact of the Transactions. Excluding the impact of the Transactions, distribution revenue was flat for the three months ended June 30, 2018 and increased 1% for the six months ended June 30, 2018. On a pro forma combined basis, distribution revenue increased 1% for the three and six months ended June 30, 2018. For as reported, excluding the impact of the Transactions, and pro forma results for the three and six months ended June 30, 2018, increases in contractual affiliate rates were offset by a decline in subscribers and to a lesser extent lower contributions from content deliveries under licensing agreements. On a pro forma combined basis, total portfolio subscribers were 5% lower at June 30, 2018 than June 30, 2017, while subscribers to our fully distributed networks were 3% lower.

Advertising revenue for the three and six months ended June 30, 2018 increased \$618 million and \$840 million, respectively, primarily due to the impact of the Transactions. Excluding the impact of the Transactions, advertising revenue was flat for the three months ended June 30, 2018 and increased 2% for the six months ended June 30, 2018. On a pro forma combined basis, advertising revenue increased 1% for the three and six months ended June 30, 2018. For both as reported excluding the impact of the Transactions and pro forma combined results increases from continued monetization of our digital content offerings, and to a lesser extent higher pricing for advertising spots on our linear networks, were partially offset by lower audience delivery on our linear networks, with lower audience delivery fully offsetting the increases on an as reported basis excluding the impact of the transactions for the three months ended June 30, 2018.

Other revenue increased \$18 million and \$35 million for the three and six months ended June 30, 2018, respectively, due to the impact of the Transactions. Excluding the impact of the Transactions, other revenue decreased \$6 million and \$9 million for the three and six months ended June 30, 2018, respectively. On a pro forma combined basis, other revenue decreased \$4 million and \$3 million for the three and six months ended June 30, 2018, respectively. For both as reported excluding the impact of the Transactions and pro forma combined results the decrease was due to lower program and merchandising sales.

## Costs of Revenues

Costs of revenues increased \$274 million and \$385 million for the three and six months ended June 30, 2018, respectively, primarily due to the impact of the Transactions. Content expense was \$418 million and \$183 million for the three months ended June 30, 2018 and 2017, respectively, and \$693 million and \$361 million for the six months ended June 30, 2018 and 2017, respectively. Excluding the impact of the Transactions, costs of revenues increased 3% for three and six months ended June 30, 2018. On a pro forma combined basis, costs of revenues increased 1% and 3% for the three and six months ended June 30, 2018, respectively. Pro forma combined content expense was \$418 million and \$415 million for the three months ended June 30, 2018 and 2017, respectively, and \$822 million and \$801 million for the six months ended June 30, 2018 and 2017, respectively. For both as reported excluding the impact of the Transactions and pro forma combined results, the increases were primarily attributable to increased spending on content in the prior year that is amortizing in the current period, and to a lesser extent, increases in digital media production and distribution costs.

## Selling, General and Administrative

Selling, general and administrative expenses increased \$200 million and \$283 million for the three and six months ended June 30, 2018, respectively, primarily due to the impact of the Transactions. Excluding the impact of the Transactions, selling, general and administrative expenses increased 7% and 3%, respectively, for the same periods. The increase was primarily attributable to increased spending on marketing due to the timing of premieres for programming on our linear networks, partially offset by reductions in personnel costs due to restructuring and the integration of Scripps Networks for the three months ended June 30, 2018, and increased research costs for the six months ended June 30, 2018. On a pro forma combined basis, selling, general and administrative expenses were flat for the three months ended June 30, 2018, and decreased 2% for the six months ended June 30, 2018, due to cost reduction efforts implemented as part of the integration of Scripps Networks.

## Adjusted OIBDA

Adjusted OIBDA increased 73% and 53% for the three and six months ended June 30, 2018, primarily due to the impact of the Transactions. Excluding the impact of the Transactions, Adjusted OIBDA decreased 4% and 1%, for the

three and six months ended June 30, 2018, respectively, primarily driven by increases in costs of revenues and selling, general and administrative expenses. On a pro forma combined basis, Adjusted OIBDA increased 1% for the three and six months ended June 30, 2018, primarily driven by increases in distribution and advertising revenue, partially offset by increases in costs of revenues.

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International Networks

The following tables present, for our International Networks segment, revenues by type, certain operating expenses, Adjusted OIBDA and a reconciliation of Adjusted OIBDA to operating income (in millions).

Three Months Ended June 30,

|  | 2018   |            |          | 2017   |            |          | Actual Change |        | Pro Forma Combined Change |        |
|--|--------|------------|----------|--------|------------|----------|---------------|--------|---------------------------|--------|
|  | Actual | Pro        | Pro      | Actual | Pro        | Pro      | \$            | %      | \$                        | %      |
|  |        | Forma      | Forma    |        | Forma      | Forma    |               |        |                           |        |
|  |        | Adjustment | Combined |        | Adjustment | Combined |               |        |                           |        |
| Revenues:  |        |            |          |        |            |          |               |        |                           |        |
| Distribution   | \$532  | \$ 1       | \$ 533   | \$457  | \$ 28      | \$ 485   | \$75          | 16 %   | \$48                      | 10 %   |
| Advertising  | 473    | —          | 473      | 333    | 108        | 441      | 140           | 42 %   | 32                        | 7 %    |
| Other  | 46     | (1 )       | 45       | 21     | 12         | 33       | 25            | NM     | 12                        | 36 %   |
| Total revenues   | 1,051  | —          | 1,051    | 811    | 148        | 959      | 240           | 30 %   | 92                        | 10 %   |
| Costs of revenues, excluding depreciation and amortization | (499 ) | (6 )       | (505 )   | (400 ) | (68 )      | (468 )   | (99 )         | (25 )% | (37 )                     | (8 )%  |
| Selling, general and administrative                        | (216 ) | 1          | (215 )   | (175 ) | (35 )      | (210 )   | (41 )         | (23 )% | (5 )                      | (2 )%  |
| Total Adjusted OIBDA                                       | 336    | (5 )       | 331      | 236    | 45         | 281      | 100           | 42 %   | 50                        | 18 %   |
| Depreciation and amortization                              | (83 )  | —          | (83 )    | (55 )  | (27 )      | (82 )    | (28 )         | (51 )% | (1 )                      | (1 )%  |
| Restructuring and other charges                            | (146 ) | —          | (146 )   | (4 )   | —          | (4 )     | (142 )        | NM     | (142 )                    | NM     |
| Inter-segment eliminations                                 | (5 )   | —          | (5 )     | —      | (6 )       | (6 )     | (5 )          | (100)% | 1                         | 17 %   |
| Operating income   | \$102  | \$ (5 )    | \$ 97    | \$177  | \$ 12      | \$ 189   | \$(75)        | (42 )% | \$(92)                    | (49 )% |

Six Months Ended June 30,

|  | 2018     |            |          | 2017   |            |          | Actual Change |        | Pro Forma Combined Change |        |
|--|----------|------------|----------|--------|------------|----------|---------------|--------|---------------------------|--------|
|  | Actual   | Pro        | Pro      | Actual | Pro        | Pro      | \$            | %      | \$                        | %      |
|  |          | Forma      | Forma    |        | Forma      | Forma    |               |        |                           |        |
|  |          | Adjustment | Combined |        | Adjustment | Combined |               |        |                           |        |
| Revenues:  |          |            |          |        |            |          |               |        |                           |        |
| Distribution   | \$1,069  | \$ 22      | \$ 1,091 | \$904  | \$ 55      | \$ 959   | \$165         | 18 %   | \$132                     | 14 %   |
| Advertising  | 858      | 69         | 927      | 615    | 189        | 804      | 243           | 40 %   | 123                       | 15 %   |
| Other  | 222      | 13         | 235      | 39     | 25         | 64       | 183           | NM     | 171                       | NM     |
| Total revenues   | 2,149    | 104        | 2,253    | 1,558  | 269        | 1,827    | 591           | 38 %   | 426                       | 23 %   |
| Costs of revenues, excluding depreciation and amortization | (1,226 ) | (53 )      | (1,279 ) | (781 ) | (132 )     | (913 )   | (445 )        | (57 )% | (366 )                    | (40 )% |
| Selling, general and administrative                        | (450 )   | (26 )      | (476 )   | (347 ) | (69 )      | (416 )   | (103 )        | (30 )% | (60 )                     | (14 )% |
| Total Adjusted OIBDA                                       | 473      | 25         | 498      | 430    | 68         | 498      | 43            | 10 %   | —                         | — %    |
| Depreciation and amortization                              | (150 )   | (19 )      | (169 )   | (109 ) | (53 )      | (162 )   | (41 )         | (38 )% | (7 )                      | (4 )%  |
| Restructuring and other charges                            | (246 )   | (2 )       | (248 )   | (21 )  | —          | (21 )    | (225 )        | NM     | (227 )                    | NM     |
| Inter-segment eliminations                                 | (6 )     | (3 )       | (9 )     | —      | (12 )      | (12 )    | (6 )          | (100)% | 3                         | 25 %   |
| Operating income   | \$71     | \$ 1       | \$ 72    | \$300  | \$ 3       | \$ 303   | \$(229)       | (76 )% | \$(231)                   | (76 )% |

Revenues

Distribution revenue for the three and six months ended June 30, 2018 increased 16% and 18%, respectively, mostly due to the impact of the acquisition of Scripps Networks. Excluding the impact of the acquisition of Scripps Networks and foreign currency fluctuations, distribution revenue increased 6% and 8% for the three and six months ended June



30, 2018, respectively. On a pro forma combined basis, excluding the impact of foreign currency fluctuations, distribution revenue

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increased 6% and 8% for the three and six months ended June 30, 2018, respectively. For both as reported excluding the impact of the acquisition of Scripps Networks and pro forma combined results, excluding the impact of foreign currency fluctuations, change is primarily driven by increases in digital subscription revenues in Europe and higher pricing in Latin America and Europe, partially offset by pricing declines in Asia.

Advertising revenue for the three and six months ended June 30, 2018 increased 42% and 40%, respectively, primarily due to the impact of the acquisition of Scripps Networks. Excluding the impact of the acquisition of Scripps Networks and foreign currency fluctuations, advertising revenue was flat and increased 5% for the three and six months ended June 30, 2018, respectively. On a pro forma combined basis, excluding the impact of foreign currency fluctuations, advertising revenue increased 2% and 6% for the three and six months ended June 30, 2018, respectively. For as reported excluding the impact of the acquisition of Scripps Networks and pro forma combined results for the three months ended June 30, 2018, excluding the impact of foreign currency fluctuations, the impact of favorable pricing was offset by viewership declines in Europe, with strong performance at TVN driving an increase on a pro forma combined basis. For both as reported excluding the acquisition of Scripps and pro forma combined results, excluding the impact of foreign currency fluctuations, for the six months ended June 30, 2018 the increase is primarily driven by increases in pricing, partially offset by lower ratings in Europe.

Other revenue for the three and six months ended June 30, 2018 increased \$25 million and \$183 million, respectively. Excluding the impact of the acquisition of Scripps Networks and foreign currency fluctuations, other revenue increased \$12 million and \$157 million, respectively. On a pro forma combined basis, excluding the impact of foreign currency fluctuations, other revenue increased \$13 million and \$165 million for the three and six months ended June 30, 2018, respectively. For both as reported excluding the impact of the acquisition of Scripps Networks and pro forma combined results for the three months ended June 30, 2018, excluding the impact of foreign currency fluctuations, the increase is largely due to higher content sales. For both as reported excluding the impact of the acquisition of Scripps Networks and pro forma combined results for the six months ended June 30, 2018, excluding the impact of foreign currency fluctuations, the increase is primarily due to sublicensing of Olympics sports rights to broadcast networks throughout Europe.

#### Costs of Revenues

Costs of revenues for the three and six months ended June 30, 2018 increased 25% and 57%, respectively, primarily due to the impact of the acquisition of Scripps Networks. Excluding the impact of the acquisition of Scripps Networks and foreign currency fluctuations, costs of revenues increased 2% and 34% for the three and six months ended June 30, 2018, respectively. Content rights expense excluding the impact of foreign currency fluctuations was \$312 million and \$278 million for the three months ended June 30, 2018 and 2017, respectively, and \$778 million and \$568 million for the six months ended June 30, 2018 and 2017, respectively. On a pro forma combined basis, excluding the impact of foreign currency fluctuations, costs of revenues increased 4% and 31% for the three and six months ended June 30, 2018, respectively. Pro forma combined content rights expense was \$317 million and \$317 million for the three months ended June 30, 2018 and 2017, respectively and \$807 million and \$643 million for the six months ended June 30, 2018 and 2017, respectively. For both as reported excluding the impact of the acquisition of Scripps Networks and pro forma combined results, excluding the impact of foreign currency fluctuations, the increase is primarily driven by spending on sports content and associated production costs for the three and six months ended June 30, 2018, particularly the Olympics for the six months ended June 30, 2018.

#### Selling, General and Administrative

Selling, general and administrative expenses for the three and six months ended June 30, 2018 increased 23% and 30%, respectively, mostly due to the impact of the acquisition of Scripps Networks. Excluding the impact of the acquisition of Scripps Networks and foreign currency fluctuations, selling, general and administrative expenses increased 3% and 10% for the three and six months ended June 30, 2018, respectively. On a pro forma combined basis, excluding the impact of foreign currency fluctuations, selling, general and administrative expenses decreased 3% for the three months ended June 30, 2018 due to management's cost containment efforts, and increased 4% for the six months ended June 30, 2018. The increases for as reported excluding the impact of the acquisition of Scripps Networks for the three and six months ended June 30, 2018 and pro forma combined results for the six months ended June 30, 2018, excluding the impact of foreign currency fluctuations, was primarily driven by increased spending related to digital distribution offerings and Olympic-related expenses.

Adjusted OIBDA

Adjusted OIBDA increased 42% and 10% for the three and six months ended June 30, 2018, respectively, primarily due to the acquisition of Scripps Networks. Excluding the impact of the acquisition of Scripps Networks and foreign currency fluctuations, Adjusted OIBDA increased 12% for the three months ended June 30, 2018 and decreased 10% for the six months ended June 30, 2018. On a pro forma combined basis, excluding the impact of foreign currency fluctuations, Adjusted OIBDA increased 14% and decreased 4% for the three and six months ended June 30, 2018, respectively. For both as reported excluding

the impact of the acquisition of Scripps Networks and pro forma combined results the increase for the three months ended June 30, 2018, excluding the impact of foreign currency fluctuations, is primarily driven by increases in revenues, partially offset by increases in costs of revenues. For both as reported excluding the impact of the acquisition of Scripps Networks and pro forma combined results the decrease for the six months ended June 30, 2018, excluding the impact of foreign currency fluctuations, is primarily driven by increases in costs of revenues and selling, general and administrative expenses, including costs related to the Olympics, mostly offset by increases in revenues. Education and Other

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

|  | Three<br>Months<br>Ended<br>June 30, |      |       |        |
|--|--------------------------------------|------|-------|--------|
|  | 2018                                 | 2017 | %     | Change |
| Revenues:  | \$14                                 | \$44 | (68)  | %      |
| Costs of revenues, excluding depreciation and amortization | (6)                                  | (17) | 65    | %      |
| Selling, general and administrative                        | (8)                                  | (22) | 64    | %      |
| Adjusted OIBDA   | —                                    | 5    | (100) | %      |
| Depreciation and amortization                              | (1)                                  | (1)  | —     | %      |
| Restructuring and other charges                            | (1)                                  | —    | (100) | %      |
| Gain (loss) on disposition                                 | 84                                   | (4)  | NM    |        |
| Inter-segment eliminations                                 | 3                                    | 2    | 50    | %      |
| Operating income   | \$85                                 | \$2  | NM    |        |
|  | Six<br>Months<br>Ended<br>June 30,   |      |       |        |
|  | 2018                                 | 2017 | %     | Change |
| Revenues:  | \$49                                 | \$81 | (40)  | %      |
| Costs of revenues, excluding depreciation and amortization | (17)                                 | (33) | 48    | %      |
| Selling, general and administrative                        | (29)                                 | (49) | 41    | %      |
| Adjusted OIBDA   | 3                                    | (1)  | NM    |        |
| Depreciation and amortization                              | (3)                                  | (2)  | (50)  | %      |
| Restructuring and other charges                            | (1)                                  | (1)  | —     | %      |
| Gain (loss) on disposition                                 | 84                                   | (4)  | NM    |        |
| Inter-segment eliminations                                 | 7                                    | 8    | (13)  | %      |
| Operating income   | \$90                                 | \$—  | 100   | %      |

Subsequent to the sale of an 88% stake in the Education Business on April 30, 2018, the Education and Other segment only includes activities associated with inter-company sales of productions for our U.S. Networks segment. Adjusted OIBDA decreased \$5 million and increased \$4 million for the three and six months ended June 30, 2018, respectively. The decrease for the three months ended June 30, 2018 was primarily due to the sale of the Education Business, while the increase for the six months ended June 30, 2018 was mostly due to lower expenses, partially offset by lower revenues as a result of the sale of the Raw and Betty production studios on April 28, 2017.

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Corporate and Inter-segment Eliminations

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

Three Months Ended June 30,

|  | 2018    |                    | 2017               |         | Actual Change      |                    | Pro Forma Combined Change |       |    |        |       |   |
|--|---------|--------------------|--------------------|---------|--------------------|--------------------|---------------------------|-------|----|--------|-------|---|
|  | Actual  | Pro Forma Adjusted | Pro Forma Combined | Actual  | Pro Forma Adjusted | Pro Forma Combined | \$                        | %     | \$ | %      |       |   |
|  |         |                    |                    |         |                    |                    |                           |       |    |        |       |   |
| Revenues   | \$—     | \$—                | \$—                | \$—     | \$—                | \$—                | \$—                       | —     | %  | \$—    | —     | % |
| Costs of revenues, excluding depreciation and amortization | —       | —                  | —                  | (1)     | —                  | (1)                | 1                         | 100   | %  | 1      | 100   | % |
| Selling, general and administrative                        | (105)   | 1                  | (104)              | (90)    | (22)               | (112)              | (15)                      | (17)  | %  | 8      | 7     | % |
| Adjusted OIBDA   | (105)   | 1                  | (104)              | (91)    | (22)               | (113)              | (14)                      | (15)  | %  | 9      | 8     | % |
| Mark-to-market share-based compensation                    | (26)    | 1                  | (25)               | 5       | —                  | 5                  | (31)                      | NM    |    | (30)   | NM    |   |
| Depreciation and amortization                              | (31)    | —                  | (31)               | (18)    | (1)                | (19)               | (13)                      | (72)  | %  | (12)   | (63)  | % |
| Restructuring and other charges                            | (21)    | —                  | (21)               | (4)     | —                  | (4)                | (17)                      | NM    |    | (17)   | NM    |   |
| Scripps Networks transaction and integration costs         | (21)    | —                  | (21)               | —       | —                  | —                  | (21)                      | (100) | %  | (21)   | (100) | % |
| Inter-segment eliminations                                 | —       | —                  | —                  | —       | (1)                | (1)                | —                         | —     | %  | 1      | 100   | % |
| Operating loss   | \$(204) | \$ 2               | \$(202)            | \$(108) | \$(24)             | \$(132)            | \$(96)                    | (89)  | %  | \$(70) | (53)  | % |

Six Months Ended June 30,

|  | 2018    |                    | 2017               |         | Actual Change      |                    | Pro Forma Combined Change |       |    |         |       |   |
|--|---------|--------------------|--------------------|---------|--------------------|--------------------|---------------------------|-------|----|---------|-------|---|
|  | Actual  | Pro Forma Adjusted | Pro Forma Combined | Actual  | Pro Forma Adjusted | Pro Forma Combined | \$                        | %     | \$ | %       |       |   |
|  |         |                    |                    |         |                    |                    |                           |       |    |         |       |   |
| Revenues   | \$—     | \$—                | \$—                | \$—     | \$—                | \$—                | \$—                       | —     | %  | \$—     | —     | % |
| Costs of revenues, excluding depreciation and amortization | (1)     | —                  | (1)                | (1)     | —                  | (1)                | —                         | —     | %  | —       | —     | % |
| Selling, general and administrative                        | (199)   | (22)               | (221)              | (176)   | (51)               | (227)              | (23)                      | (13)  | %  | 6       | 3     | % |
| Adjusted OIBDA   | (200)   | (22)               | (222)              | (177)   | (51)               | (228)              | (23)                      | (13)  | %  | 6       | 3     | % |
| Mark-to-market share-based compensation                    | (29)    | —                  | (29)               | (7)     | (3)                | (10)               | (22)                      | NM    |    | (19)    | NM    |   |
| Depreciation and amortization                              | (55)    | (1)                | (56)               | (35)    | (1)                | (36)               | (20)                      | (57)  | %  | (20)    | (56)  | % |
| Restructuring and other charges                            | (128)   | (2)                | (130)              | (6)     | —                  | (6)                | (122)                     | NM    |    | (124)   | NM    |   |
| Scripps Networks transaction and integration costs         | (77)    | 28                 | (49)               | —       | —                  | —                  | (77)                      | (100) | %  | (49)    | (100) | % |
| Inter-segment eliminations                                 | —       | —                  | —                  | —       | (3)                | (3)                | —                         | —     | %  | 3       | 100   | % |
| Operating loss   | \$(489) | \$ 3               | \$(486)            | \$(225) | \$(58)             | \$(283)            | \$(264)                   | NM    |    | \$(203) | (72)  | % |

Corporate operations primarily consist of executive management, administrative support services, substantially all of our share-based compensation and transaction and integration costs related to the acquisition of Scripps Networks. Adjusted OIBDA decreased 15% and 13% for the three and six months ended June 30, 2018. Excluding the impact of the Transactions and foreign currency fluctuations, the Adjusted OIBDA loss increased 4% and 6% for the three and

six months

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ended June 30, 2018, due to increases in selling, general and administrative costs driven by increases in technology costs, partially offset by reduced personnel costs following the restructuring. On a pro forma combined basis, the Adjusted OIBDA loss decreased 8% and 3% for the three and six months ended June 30, 2018 respectively. Excluding the impact of foreign currency fluctuations and on a pro forma combined basis, the Adjusted OIBDA loss decreased 9% and 3% for the three and six months ended June 30, 2018 respectively, due to reductions in personnel costs as a result of the integration of Scripps Networks, partially offset by increases in technology costs.

#### Foreign Exchange Impacting Comparability

In addition to the Transactions, 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 "2018 Baseline Rate"), and the prior year amounts translated at the same 2018 Baseline Rate. In addition, consistent with the assumption of a constant currency environment, our ex-FX results exclude the impact of our foreign currency hedging activities, as well as realized and unrealized foreign currency transaction gains and losses. Results on a constant currency basis, as we present them, may not be comparable to similarly titled measures used by other companies. Selling, general and administrative expense, as presented below, excludes mark-to-market based compensation and Scripps Networks transaction and integration costs due to their impact on comparability between periods.

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

|  | Three Months Ended June 30, |         |                        |   |                        |   |
|--|-----------------------------|---------|------------------------|---|------------------------|---|
|  | 2018                        | 2017    | % Change<br>(Reported) |   | %<br>Change<br>(ex-FX) |   |
| Revenues:  |                             |         |                        |   |                        |   |
| Distribution   | \$1,186                     | \$ 857  | 38                     | % | 36                     | % |
| Advertising  | 1,563                       | 805     | 94                     | % | 90                     | % |
| Other  | 96                          | 83      | 16                     | % | 16                     | % |
| Total revenues   | 2,845                       | 1,745   | 63                     | % | 60                     | % |
| Costs of revenues, excluding depreciation and amortization | 995                         | 634     | 57                     | % | 52                     | % |
| Selling, general and administrative                        | 636                         | 394     | 61                     | % | 59                     | % |
| Adjusted OIBDA   | \$1,214                     | \$ 717  | 69                     | % | 68                     | % |
|  |                             |         |                        |   |                        |   |
|  |                             |         |                        |   |                        |   |
|  |                             |         |                        |   |                        |   |
|  | Six Months Ended June 30,   |         |                        |   |                        |   |
|  | 2018                        | 2017    | % Change<br>(Reported) |   | %<br>Change<br>(ex-FX) |   |
| Revenues:  |                             |         |                        |   |                        |   |
| Distribution   | \$2,237                     | \$1,712 | 31                     | % | 27                     | % |
| Advertising  | 2,575                       | 1,492   | 73                     | % | 68                     | % |
| Other  | 340                         | 154     | NM                     |   | NM                     |   |
| Total revenues   | 5,152                       | 3,358   | 53                     | % | 49                     | % |
| Costs of revenues, excluding depreciation and amortization | 2,055                       | 1,241   | 66                     | % | 58                     | % |

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|                                     |         |         |    |   |    |   |
|-------------------------------------|---------|---------|----|---|----|---|
| Selling, general and administrative | 1,186   | 797     | 49 | % | 44 | % |
| Adjusted OIBDA                      | \$1,911 | \$1,320 | 45 | % | 43 | % |

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The impact of foreign currency on the comparability of our financial results for International Networks for the three and six months ended June 30, 2018 is as follows (dollar amounts in millions).

|  | Three Months Ended June 30, |       |                     |   |                  |   |
|--|-----------------------------|-------|---------------------|---|------------------|---|
|  | 2018                        | 2017  | % Change (Reported) |   | % Change (ex-FX) |   |
| Revenues:  |                             |       |                     |   |                  |   |
| Distribution   | \$532                       | \$457 | 16                  | % | 13               | % |
| Advertising  | 473                         | 333   | 42                  | % | 35               | % |
| Other  | 46                          | 21    | NM                  |   | NM               |   |
| Total revenues   | 1,051                       | 811   | 30                  | % | 25               | % |
| Costs of revenues, excluding depreciation and amortization | 499                         | 400   | 25                  | % | 19               | % |
| Selling, general and administrative                        | 216                         | 175   | 23                  | % | 20               | % |
| Adjusted OIBDA   | \$336                       | \$236 | 42                  | % | 39               | % |
|  | Six Months Ended June 30,   |       |                     |   |                  |   |
|  | 2018                        | 2017  | % Change (Reported) |   | % Change (ex-FX) |   |
| Revenues:  |                             |       |                     |   |                  |   |
| Distribution   | \$1,069                     | \$904 | 18                  | % | 12               | % |
| Advertising  | 858                         | 615   | 40                  | % | 30               | % |
| Other  | 222                         | 39    | NM                  |   | NM               |   |
| Total revenues   | 2,149                       | 1,558 | 38                  | % | 30               | % |
| Costs of revenues, excluding depreciation and amortization | 1,226                       | 781   | 57                  | % | 46               | % |
| Selling, general and administrative                        | 450                         | 347   | 30                  | % | 22               | % |
| Adjusted OIBDA   | \$473                       | \$430 | 10                  | % | 7                | % |

## FINANCIAL CONDITION

### Liquidity

#### Sources of Cash

Historically, we have generated a significant amount of cash from operations. During the six months ended June 30, 2018, we funded our working capital needs primarily through cash flows from operations. As of June 30, 2018, we had \$392 million of cash and cash equivalents on hand. We are a well-known seasoned issuer and have the ability to conduct registered offerings of securities, including debt securities, common stock and preferred stock, on short notice. Access to sufficient capital from the public market is not assured.

### Debt

#### Senior Notes

In connection with the acquisition of Scripps Networks on March 6, 2018, the Company assumed \$2.5 billion aggregate principal amount of Scripps Networks 2.750% senior notes due 2019, 2.800% senior notes due 2020, 3.500% senior notes due 2022, 3.900% senior notes due 2024 and 3.950% senior notes due 2025 (the "Scripps Networks Senior Notes").

On April 3, 2018, pursuant to the Offering Memorandum and Consent Solicitation Statement to Exchange dated March 5, 2018, Discovery Communications, LLC ("DCL"), a wholly-owned subsidiary of the Company, completed the exchange of \$2.3 billion aggregate principal amount of Scripps Networks Senior Notes, for \$2.3 billion aggregate principal amount of DCL's 2.750% senior notes due 2019 (the "2019 Notes"), 2.800% senior notes due 2020 (the "2020 Notes"), 3.500% senior notes due 2022 (the "2022 Notes"), 3.900% senior notes due 2024 (the "2024 Notes") and 3.950% senior notes due 2025 (the "2025 Notes"). Interest on the 2019 Notes and the 2024 Notes is payable semi-annually in arrears on May 15 and November 15 of each year beginning on May 15, 2018. Interest on the 2020 Notes, the 2020 Notes and the 2025 Notes is payable semi-annually in arrears on June 15 and December 15 of each year commencing on June 15, 2018. The exchange was accounted for as a debt modification and, as a result,

third-party issuance costs were expensed as incurred.

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On September 21, 2017, DCL issued \$500 million principal amount of 2.200% senior notes due 2019, \$1.20 billion principal amount of 2.950% senior notes due 2023, \$1.70 billion principal amount of 3.950% senior notes due 2028, \$1.25 billion principal amount of 5.000% senior notes due 2037, \$1.25 billion principal amount of 5.200% senior notes due 2047 (collectively, the "Senior Fixed Rate Notes") and \$400 million principal amount of floating rate senior notes due 2019 (the "Senior Floating Rate Notes" and, together with the Senior Fixed Rate Notes, the "USD Notes"). Interest on the Senior Fixed Rate Notes is payable on March 20 and September 20 of each year. Interest on the Senior Floating Rate Notes is payable on March 20, June 20, September 20 and December 20 of each year. The USD Notes are fully and unconditionally guaranteed by the Company. On September 21, 2017, DCL also issued £400 million principal amount (\$540 million at issuance based on the exchange rate of \$1.35 per pound at September 21, 2017) of 2.500% senior notes due 2024 (the "Sterling Notes"). Interest on the Sterling Notes is payable on September 20 of each year. The proceeds received by DCL from the USD Notes and the Sterling Notes were net of a \$11 million issuance discount and \$57 million of debt issuance costs.

On March 13, 2017, DCL issued \$450 million principal amount of 3.80% senior notes due March 13, 2024 (the "2017 USD Notes") and an additional \$200 million principal amount of its existing 4.90% senior notes due March 11, 2026 (the "2016 USD Notes"). Interest on the 2017 USD Notes is payable semi-annually on March 13 and September 13 of each year. Interest on the 2016 USD Notes is payable semi-annually on March 11 and September 11 of each year. The proceeds received by DCL from the 2017 USD Notes were net of a \$1 million issuance discount and \$4 million of debt issuance costs. The proceeds received by DCL from the 2016 USD Notes included a \$10 million issuance premium and were net of \$2 million of debt issuance costs.

DCL used the proceeds from the offerings of the 2017 USD Notes and the 2016 USD Notes to repurchase \$600 million aggregate principal amount of DCL's 5.05% senior notes due 2020 and 5.625% senior notes due 2019 in a cash tender offer. The repurchase resulted in a pretax loss on extinguishment of debt of \$54 million for the three months ended March 31, 2017, which is presented as a separate line item on the Company's consolidated statements of operations and recognized as a component of financing cash outflows on the consolidated statements of cash flows. The loss included \$50 million for premiums to par value, \$2 million of non-cash write-offs of unamortized deferred financing costs, \$1 million for the write-off of the original issue discount of these senior notes and \$1 million accrued for other third-party fees.

#### Revolving Credit Facility

We have access to a \$2.5 billion revolving credit facility, as amended on August 11, 2017. (See Note 6 to the accompanying consolidated financial statements). Borrowing capacity under this agreement is reduced by the outstanding borrowings under our commercial paper program. As of June 30, 2018, the Company had outstanding borrowings under the revolving credit facility of \$375 million at a weighted average interest rate of 3.33%. The revolving credit facility agreement provides for a maturity date of August 11, 2022 and the option for up to two additional 364-day renewal periods. All obligations of DCL and the other borrowers under the revolving credit facility are unsecured and are fully and unconditionally guaranteed by Discovery.

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, as amended on August 11, 2017, continues to require DCL to maintain a consolidated interest coverage ratio (as defined in the Credit Agreement) of no less than 3:00 to 1:00 and now requires a consolidated leverage ratio of financial covenant of 5.50 to 1.00, with step-downs to 5.00 to 1.00 in the first year after the closing of the acquisition of Scripps Networks and 4.50 to 1.00 in the second year after the closing. As of June 30, 2018, Discovery, DCL and the other borrowers were in compliance with all covenants and there were no events of default under the Credit Agreement.

#### Term Loans

On August 11, 2017, DCL entered into a three-year delayed draw tranche and a five-year delayed draw tranche unsecured term loan credit facility (the "Term Loans"), each with a principal amount of up to \$1 billion. The term of each delayed draw loan commenced on March 6, 2018 when Discovery used these funds to finance a portion of the acquisition of Scripps Networks. As of June 30, 2018, the Company had an outstanding balance of \$500 million on

the Term Loans. The Company used cash from operations and borrowings under the commercial paper program to pay down a portion of the outstanding Term Loan borrowings.

### 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 billion. The maturities of these notes vary but may not exceed 397 days. The notes may be issued at a discount or at par, and interest rates vary based on market conditions and the credit rating assigned to the notes at the time of issuance. As of June 30, 2018, we had \$579 million of commercial paper borrowings outstanding with a weighted average interest rate of approximately 2.7%. 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, term loans, and commercial paper as required, and accordingly these sources of cash also require use of our cash.

### Dispositions

On April 30, 2018, the Company sold an 88% controlling equity stake in its Education Business to Francisco Partners for cash of \$113 million and recorded a gain of \$84 million upon disposition. Discovery retained a 12% ownership interest in the Education Business, which is accounted for as an equity method investment. (See Note 2 to the accompanying consolidated financial statements.)

### Real Estate Strategy and Relocation of Global Headquarters

On January 9, 2018, as part of the Company's restructuring, a press release was issued announcing a new real estate strategy with plans to relocate the Company's global headquarters from Silver Spring, Maryland ("the Silver Spring property") to New York City in 2019. As of June 30, 2018, the Silver Spring property met the held for sale classification criteria, as defined in GAAP and recognized an impairment loss of \$12 million, based on an estimated net sales proceeds of \$68 million. (See Note 4 to the accompanying consolidated financial statements.)

### 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.

### Investments and Business Combinations

#### Scripps Networks Acquisition

On March 6, 2018, Discovery merged with Scripps Networks pursuant to the Agreement and Plan of Merger by and among Discovery, Scripps Networks and Skylight Merger Sub, Inc.; dated July 30, 2017 (the "acquisition of Scripps Networks"). The Company elected to exercise in full the cash top-up option. The acquisition of Scripps Networks consideration consisted of (i) for Scripps Networks shareholders who did not make an election or elected the mixed consideration, \$65.82 in cash and 1.0584 shares of Discovery Series C common stock for each Scripps Networks share, (ii) for Scripps Networks shareholders that elected the cash consideration, \$90.00 in cash for each Scripps Networks share and (iii) for Scripps Networks shareholders that elected the stock consideration, 3.9392 shares of Discovery Series C common stock for each Scripps Networks share, subject to the terms and conditions set forth in the acquisition of Scripps Networks Agreement.

The consideration for the acquisition of Scripps Networks totaled \$12 billion, including cash of \$8.8 billion and stock of \$3.2 billion based on share prices as of March 6, 2018.

In addition, the Company assumed \$2.5 billion aggregate principal amount of Scripps Networks Senior Notes. On April 3, 2018, the Company completed a transaction in which most of Scripps Network outstanding debt was exchanged for DCL senior notes. In connection with that transaction, Scripps Networks Interactive, Inc., a wholly-owned subsidiary of the Company, fully and unconditionally guaranteed the DCL senior notes.

#### Other Investments

Our uses of cash have included investment in equity method investments and cost method investments (see Note 3 to the accompanying consolidated financial statements). We provide funding to our investees from time to time. During the six months ended June 30, 2018, the Company invested \$17 million in limited liability companies that sponsor renewable energy projects related to solar energy. The Company has \$3 million of future funding commitments for these investments as of June 30, 2018.



**Redeemable Noncontrolling Interest**

Due to business combinations, we also have redeemable equity balances of \$410 million, which may require the use of cash in the event holders of noncontrolling interests put their interests to the Company. (See Note 8 to the accompanying consolidated financial statements).

**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 Note 17 to the accompanying consolidated financial statements.

**Common Stock Repurchases**

The Company's the stock repurchase program, which authorized management to purchase shares of the Company's common stock from time to time through open market purchases or privately negotiated transactions at prevailing market prices or pursuant to one or more accelerated stock repurchase or other derivative arrangements as permitted by securities laws and other legal requirements and subject to stock price, business and market conditions and other factors, expired on October 8, 2017, and we have not repurchased any shares of common stock since then. As of June 30, 2018, the Company had repurchased 3 million and 164 million shares of our Series A and Series C common stock over the life of the program for the aggregate purchase price of \$171 million and \$6.6 billion, respectively. We have funded 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 stock repurchases through borrowings under our revolving credit facility and future financing transactions. (See Note 9 to the accompanying consolidated financial statements.)

**Income Taxes and Interest**

We expect to continue to make payments for income taxes and interest on our outstanding senior notes. During the six months ended June 30, 2018, we made cash payments of \$119 million and \$381 million for income taxes and interest on our outstanding debt, respectively.

**Debt**

We have \$1.8 billion of outstanding senior notes coming due in 2019. As of June 30, 2018, the Company had paid down \$1.5 billion on the Term Loans using cash from operations and borrowings under the Company's commercial paper program.

**Restructuring and Other**

Our uses of cash include restructuring and other charges related to content write-offs, contract terminations, employee terminations and facility closures. These charges result from activities to integrate the Scripps Networks and establish an efficient cost structure. As of June 30, 2018, we have restructuring liabilities of \$107 million and \$22 million related to employee and contract terminations, respectively. (See Note 19 to the accompanying consolidated financial statements). We expect to incur additional restructuring and integration expenses related to employee and contract terminations, relocation from the Silver Spring property to New York City, and costs related to content.

**Cash Flows**

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

|  | Six Months     |        |
|--|----------------|--------|
|  | Ended June 30, |        |
|  | 2018           | 2017   |
| Cash and cash equivalents, beginning of period               | \$7,309        | \$300  |
| Cash provided by operating activities                        | 716            | 443    |
| Cash used in investing activities                            | (8,583 )       | (293 ) |
| Cash provided by (used in) financing activities              | 977            | (295 ) |
| Effect of exchange rate changes on cash and cash equivalents | (27 )          | 51     |
| Net change in cash and cash equivalents                      | (6,917 )       | (94 )  |
| Cash and cash equivalents, end of period                     | \$392          | \$206  |

### Operating Activities

Cash provided by operating activities increased \$273 million for the six months ended June 30, 2018 as compared to the six months ended June 30, 2017. The increase was primarily attributable to the acquisition of Scripps Networks, as well as improved operating results and a decrease in cash paid for taxes, partially offset by spending on content, including sports rights and cash paid for interest.

### Investing Activities

Cash flows used in investing activities increased \$8.3 billion for the six months ended June 30, 2018 as compared to the six months ended June 30, 2017. The increase was primarily attributable to the acquisition of Scripps Networks (see Note 2).

### Financing Activities

Cash flows provided by financing activities increased \$1.3 billion for the six months ended June 30, 2018 as compared to the six months ended June 30, 2017. The increase was primarily attributable to net borrowings used to finance the acquisition of Scripps Networks.

### Capital Resources

As of June 30, 2018, capital resources were comprised of the following (in millions).

|   | June 30, 2018  |                               |                          |                 |
|---|----------------|-------------------------------|--------------------------|-----------------|
|   | Total Capacity | Outstanding Letters of Credit | Outstanding Indebtedness | Unused Capacity |
| Cash and cash equivalents   | \$ 392         | \$ —                          | \$ —                     | \$ 392          |
| Revolving credit facility and commercial paper program <sup>(a)</sup> | 2,500          | 1                             | 954                      | 1,545           |
| Term loans  | 500            | —                             | 500                      | —               |
| Senior notes <sup>(b)</sup>   | 16,713         | —                             | 16,713                   | —               |
| Program financing line of credit                                      | 26             | —                             | 23                       | 3               |
| Total   | \$20,131       | \$ 1                          | \$ 18,190                | \$ 1,940        |

<sup>(a)</sup> Outstanding commercial paper borrowings of \$579 million as of June 30, 2018 are supported by an unused committed capacity under the revolving credit facility and reduce unused capacity. There were \$375 million in borrowings under the revolving credit facility outstanding as of June 30, 2018.

<sup>(b)</sup> Interest on the senior notes is paid annually, semi-annually or quarterly. Our senior notes outstanding as of June 30, 2018 had interest rates that ranged from 1.90% to 6.35% and will mature between 2019 and 2047.

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

As of June 30, 2018, we held \$167 million of our \$392 million of cash and cash equivalents in our foreign subsidiaries. The 2017 Tax Act enacted on December 22, 2017 featured a participation exemption regime with current taxation of certain foreign income and imposes a mandatory repatriation toll tax on un-remitted foreign earnings. Notwithstanding the U.S. taxation of these amounts, we intend to continue to 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 deferred income tax liability with respect to these undistributed foreign earnings is not practicable.

### COMMITMENTS AND OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of business, we enter into commitments for the purchase of goods or services that require us to make payments or provide funding in the event certain circumstances occur. (See Note 17 to the accompanying consolidated financial statements.)



## RELATED PARTY TRANSACTIONS

In the ordinary course of business, we enter into transactions with related parties, primarily Liberty Global, Liberty Broadband, our equity method investees and minority partners of our consolidated subsidiaries. (See Note 16 to the accompanying consolidated financial statements.) From time to time, we also enter into equity-related transactions and repurchases with Advance/Newhouse. (See Note 9 to the accompanying consolidated financial statements.)

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our critical accounting policies and estimates have not changed since December 31, 2017. For a discussion of each of our critical accounting policies listed below, including information and analysis of estimates and assumptions involved in their application, and other significant accounting policies, see Note 2 to the consolidated financial statements included in Item 8, “Financial Statements and Supplementary Data” in the 2017 Form 10-K:

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

## NEW ACCOUNTING AND REPORTING PRONOUNCEMENTS

We adopted certain new accounting and reporting standards during the six months ended June 30, 2018. (See Note 1 to the accompanying consolidated financial statements.)

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

Quantitative and qualitative disclosures about our existing market risk are set forth in Item 7A, “Quantitative and Qualitative Disclosures About Market Risk,” in the 2017 Form 10-K. Our exposures to market risk have not changed materially since December 31, 2017.

### ITEM 4. Controls and Procedures

#### Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2018. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of June 30, 2018, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

#### Changes in Internal Control Over Financial Reporting

During the three months ended June 30, 2018, there were no changes in our internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f), that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. On March 6, 2018, the Company acquired Scripps Networks (see Note 2 to the accompanying consolidated financial statements). We are currently integrating policies, processes, people, technology and operations for the combined company and assessing the impact to our internal control over financial reporting. Management will continue to evaluate our internal control over financial reporting as we execute integration activities.



## PART II. OTHER INFORMATION

## ITEM 1. Legal Proceedings

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

## ITEM 1A. Risk Factors

Disclosure about our existing risk factors is set forth in Item 1A, "Risk Factors," in the 2017 Form 10-K. Our risk factors have not changed materially since December 31, 2017.

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

The following table presents information about our repurchases of common stock that were made through open market transactions during the three months ended June 30, 2018.

| Period                         | Total Number of Series C Shares Purchased | Average Price Paid per Share: Series C <sup>(a)</sup> | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(b)(c)</sup> | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs <sup>(a)(b)</sup> |
|--------------------------------|---|---|--|--|
| April 1, 2018 - April 30, 2018 | —   | \$ —  | —  | \$ —   |
| May 1, 2018 - May 31, 2018     | —   | \$ —  | —  | \$ —   |
| June 1, 2018 - June 30, 2018   | —   | \$ —  | —  | \$ —   |
| Total                          | —   | \$ —  | —  | \$ —   |

<sup>(a)</sup> The amounts do not give effect to any fees, commissions or other costs associated with repurchases of shares.

<sup>(b)</sup> Under the stock repurchase program, management was 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. The Company's authorization under the program expired on October 8, 2017 and we have not repurchased any shares of common stock since then. We historically have funded and in the future may fund stock repurchases through a combination of cash on hand and cash generated by operations and the issuance of debt. In the future, if further authorization is provided, we may also choose to fund stock repurchases through borrowings under our revolving credit facility or future financing transactions. The Company began its stock repurchase program on August 3, 2010.

<sup>(c)</sup> We entered into an agreement with Advance/Newhouse to repurchase, on a quarterly basis, a number of shares of Series C-1 convertible preferred stock convertible into a number of shares of Series C common stock. We did not convert any shares of Series C-1 convertible preferred stock during the three months ended June 30, 2018. There are no planned repurchases of Series C-1 convertible preferred stock for the third quarter of 2018 as there were no repurchases of Series C common stock during the three months ended June 30, 2018.

ITEM 6. Exhibits.

Exhibit No. Description

|         |   |
|---------|---|
| 4.1     | <u>Sixteenth Supplemental Indenture, dated as of June 29, 2018, among Discovery Communications, LLC, Discovery, Inc., Scripps Networks Interactive, Inc. and U.S. Bank National Association, as Trustee</u>                             |
| 10.1    | <u>Amended and Restated Employment Agreement, dated July 16, 2018, between David Zaslav and Discovery, Inc. (incorporated by reference to Exhibit 10.2 to the Form 8-K filed on July 18, 2018 (SEC File No. 001-34177))</u>             |
| 10.2    | <u>Form of David Zaslav Stock Option Agreement (incorporated by reference to Exhibit 10.1 to the Form 8-K filed on July 18, 2018 (SEC File No. 001-34177))</u>  |
| 31.1    | <u>Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as Amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)</u> |
| 31.2    | <u>Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as Amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)</u> |
| 32.1    | <u>Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)</u>   |
| 32.2    | <u>Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)</u>   |
| 101.INS | XBRL Instance Document (filed herewith)†  |
| 101.SCH | XBRL Taxonomy Extension Schema Document (filed herewith)†   |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document (filed herewith)†   |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document (filed herewith)†  |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document (filed herewith)†   |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document (filed herewith)†  |

†Attached as Exhibit 101 to this Quarterly Report on Form 10-Q are the following formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets as of June 30, 2018 and December 31, 2017, (ii) Consolidated Statements of Operations for the three and six months ended June 30, 2018 and 2017, (iii) Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2018 and 2017, (iv) Consolidated Statements of Cash Flows for the six months ended June 30, 2018 and 2017, (v) Consolidated

Statement of Equity for the six months ended June 30, 2018, and (vi) Notes to Consolidated Financial Statements.

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SIGNATURES

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

DISCOVERY, INC.  
(Registrant)

Date: August 7, 2018    By: /s/ David M. Zaslav  
David M. Zaslav  
President and Chief Executive Officer

Date: August 7, 2018    By: /s/ Gunnar Wiedenfels  
Gunnar Wiedenfels  
Chief Financial Officer

EXHIBIT INDEX

Exhibit No. Description

|         |   |
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