Discovery, Inc.
Form 10-K
March 01, 2019

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

FORM 10-K

ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 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 incorporation or organization)	(I.R.S. Employer Identification No.)
One Discovery Place Silver Spring, Maryland	20910
(Address of principal executive offices)	(Zip Code)

(240) 662-2000
(Registrant’s telephone number, including area code)

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

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

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No ¨
Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No ý
Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ý No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨
Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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	ý	Accelerated filer	¨
Non-accelerated filer	¨	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 ý
The aggregate market value of voting and non-voting common stock held by non-affiliates of the Registrant computed by reference to the last sales price of such stock, as of the last business day of the Registrant's most recently completed second fiscal quarter, which was June 30, 2018, was approximately $12 billion.
Total number of shares outstanding of each class of the Registrant's common stock as of February 19, 2019 was:

Series A Common Stock, par value $0.01 per share	157,023,114
Series B Common Stock, par value $0.01 per share	6,512,378
Series C Common Stock, par value $0.01 per share	360,442,568

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required in Item 10 through Item 14 of Part III of this Annual Report on Form 10-K is incorporated herein by reference to the Registrant's definitive Proxy Statement for its 2019 Annual Meeting of Stockholders, which shall be filed with the Securities and Exchange Commission pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, within 120 days of the Registrant's fiscal year end.

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PART I

CAUTIONARY NOTE CONCERNING FORWARD-LOOKING STATEMENTS

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

ITEM 1. Business.

For convenience, the terms “Discovery,” the “Company,” “we,” “us” or “our” are used in this Annual Report on Form 10-K to refer to both Discovery, Inc. and collectively to Discovery, Inc. and one or more of its consolidated subsidiaries, unless the context otherwise requires. On March 6, 2018, the Company acquired Scripps Networks Interactive, Inc. ("Scripps Networks") and changed its name from "Discovery Communications, Inc." to "Discovery, Inc." (See Note 3 to the accompanying consolidated financial statements.)

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

OVERVIEW

We are a global media company that provides content across multiple distribution platforms, including linear platforms such as pay-television ("pay-TV"), free-to-air ("FTA") and broadcast television, authenticated GO applications, digital distribution arrangements and content licensing arrangements. As one of the world’s largest pay-TV programmers, we provide original and purchased content and live events to approximately 4 billion cumulative subscribers and viewers worldwide through networks that we wholly or partially own. We distribute customized content in the U.S. and over 220 other countries and territories in nearly 50 languages. Our global portfolio of networks includes prominent nonfiction television brands such as Discovery Channel, our most widely distributed global brand, TLC, Animal Planet, Investigation Discovery, Science Channel, and MotorTrend (previously known as Velocity domestically and currently known as Turbo internationally). As a result of the acquisition of Scripps Networks, we also added a portfolio of networks that include Food Network, HGTV, Travel Channel, and TVN, a Polish media company. Our portfolio also includes Eurosport, a leading sports entertainment provider and broadcaster of the Olympic Games (the "Olympics") across Europe, as well as Discovery Kids, a leading children's entertainment brand in Latin America. We participate in joint ventures including Group Nine Media ("Group Nine"), a digital media holding company home to top digital brands including NowThis News, the Dodo, Thrillist, and Seeker. We operate production studios, and prior to the sale of our Education Business on April 30, 2018, we sold curriculum-based education products and services (See Note 3 to the accompanying consolidated financial statements.)

Our objectives are to invest in high-quality content for our networks and brands to build viewership, optimize distribution revenue, capture advertising sales, and create or reposition branded channels and business to 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 have extended content distribution across new platforms, including brand-aligned websites, online streaming, mobile devices, video on demand (“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 content and own most rights to our content and footage, which enables us to leverage our library to quickly launch brands and services into new markets and on new platforms. Our content can be re-edited and updated in a cost-effective manner to provide topical versions of subject matter that can be utilized around the world on a variety of platforms.

Although the Company utilizes certain brands and content globally, we classify our operations in two reportable segments: U.S. Networks, consisting principally of domestic television networks and digital content services, and International Networks, consisting primarily of international television networks and digital content services. In addition, Education and Other consists principally of a production studio, and prior to the sale of the Education Business on April 30, 2018, also included curriculum-based product and service offerings. Our segment presentation aligns with our management structure and the financial information management uses to make decisions about operating matters, such as the allocation of resources and business performance assessments. Financial information for our segments and the geographical areas in which we do business is set forth in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and Note 23 to the consolidated financial statements included in Item 8, “Financial Statements and Supplementary Data” in this Annual Report on Form 10-K.

Global Network Brands

Subscriber statistics set forth in this Annual Report on Form 10-K include both wholly-owned networks and networks operated by equity method investees. Domestic subscriber statistics are based on Nielsen Media Research. International subscriber and viewer statistics are derived from internal data coupled with external sources when available. As used herein, a “subscriber” is a single household that receives the applicable network from its cable television operator, DTH satellite operator, telecommunication service provider, or other television provider, including those who receive our networks from pay-TV providers without charge pursuant to various pricing plans that include free periods and/or free carriage. The term “cumulative subscribers” refers to the sum of the total number of subscribers to each of our networks or content services. By way of example, two households that each receive five of our networks from their pay-TV provider represent two subscribers, but 10 cumulative subscribers. The term "viewer" is a single household that receives the signal from one of our networks using the appropriate receiving equipment without a subscription to a pay-TV provider.

Our global brands are the following:

- Discovery Channel reached approximately 88 million subscribers in the U.S. and 6 million subscribers through a licensing arrangement with partners in Canada included in the U.S. Networks segment as of December 31, 2018. Discovery Channel reached approximately 361 million subscribers in international markets as of December 31, 2018 including the Discovery HD Showcase brand.
- Discovery Channel is dedicated to creating the highest quality non-fiction content that informs and entertains its viewers about the world in all its wonder, diversity and amazement. The network offers a signature mix of high-end production values and vivid cinematography across genres including science and technology, exploration, adventure, history and in-depth, behind-the-scenes glimpses at the people, places and organizations that shape and share our world.
- In the U.S., Discovery Channel audiences can enjoy their favorite programming anytime, anywhere through Discovery GO app which features live and on-demand access.
- Discovery Channel content includes Gold Rush, Naked and Afraid, Deadliest Catch, Fast N' Loud, Street Outlaws, Alaskan Bush People, Diesel Brothers, Expedition Unknown, and Cash Cab. Discovery Channel is also home to Shark Week, the network's long-running annual summer TV event.
- Discovery continues to work with some of the best storytellers in the documentary space. Recent projects include Oscar® nominated and Emmy® winner Rory Kennedy’s Above and Beyond: NASA’s Journey to Tomorrow, Racing Extinction from Oscar winners Louis Psihoyos and Fisher Stevens, and the upcoming Tigerland directed by Oscar® winner Ross Kauffman.
- Target viewers are adults aged 25-54, particularly men.

- TLC reached approximately 86 million subscribers in the U.S. and 6 million subscribers in Canada that are included in the U.S. Networks segment as of December 31, 2018. TLC content reached approximately 417 million subscribers in international markets as of December 31, 2018 including the Home & Health, Real Time and Travel & Living brands.
- Offering remarkable real-life stories without judgment, TLC shares everyday heart, humor, hope, and human connection with programming genres that include fascinating families, heartwarming transformations and life's milestone moments.
- In the U.S., TLC audiences can enjoy their favorite programming anytime, anywhere through Discovery GO app which features live and on-demand access.
- Content on TLC includes the 90 Day Fiancé franchise, Little People, Big World, Long Island Medium, Outdaughtered, Who Do You Think You Are? and Trading Spaces.
- Target viewers are adults aged 25-54, particularly women.

- Animal Planet reached approximately 85 million subscribers in the U.S. and 2 million subscribers through a licensing arrangement with partners in Canada included in the U.S. Networks segment as of December 31, 2018. Animal Planet reached approximately 281 million subscribers in international markets as of December 31, 2018.
- Animal Planet, one of Discovery's great global brands, is dedicated to creating high quality content with global appeal delivering on its mission to keep the childhood joy and wonder of animals alive by bringing people up close in every way.
- In the U.S., Animal Planet audiences can enjoy their favorite programming anytime, anywhere through Discovery GO app which features live and on-demand access.
- Content and talent on Animal Planet includes Crikey! It's the Irwins, Amanda to the Rescue, Coyote Peterson, The Zoo, Pit Bulls & Parolees, Dr. Jeff: Rocky Mountain Vet, and Puppy Bowl.
- Target viewers are adults aged 25-54.

- Investigation Discovery ("ID") reached approximately 82 million subscribers in the U.S. and 2 million subscribers through a licensing arrangement with partners in Canada included in the U.S. Networks segment as of December 31, 2018. ID reached approximately 195 million subscribers in international markets as of December 31, 2018.
- ID is a leading mystery and suspense network. From harrowing crimes and salacious scandals to the in-depth investigation and heart-breaking mysteries behind these "real people, real stories," ID challenges our everyday understanding of culture, society and the human condition.
- In the U.S., ID audiences can enjoy their favorite programming anytime, anywhere through Discovery GO app which features live and on-demand access.
- ID content includes On the Case with Paula Zahn, Homicide Hunter: Lt. Joe Kenda, the American Murder Mystery franchise, People Magazine Investigates, and Deadline: Crime with Tamron Hall.
- Target viewers are adults aged 25-54, particularly women.

- Science Channel reached approximately 60 million subscribers in the U.S. and 2 million subscribers through a licensing arrangement with partners in Canada included in the U.S. Networks segment as of December 31, 2018. Science Channel reached approximately 135 million subscribers in international markets as of December 31, 2018.
- Science Channel is home to all things science around the clock. Science Channel is the premiere TV, digital and social community for those with a passion for science, space, technology, archeology, and engineering.
- In the U.S., Science Channel audiences can enjoy their favorite programming anytime, anywhere through Discovery GO app which features live and on-demand access.
- Content on Science Channel includes MythBusters, Mysteries of the Abandoned, Outrageous Acts of Science, What on Earth?, How the Universe Works and How It's Made.
- Target viewers are adults aged 25-54.

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- MotorTrend reached approximately 73 million subscribers in the U.S. as of December 31, 2018. MotorTrend reached approximately 161 million combined subscribers and viewers in international markets, where the brand is known as Turbo (and known as Focus in Italy), as of December 31, 2018.
- MotorTrend programming is engaging and informative, featuring the very best of the automotive world as told by top experts and personalities. In addition to series and specials exemplifying the very best of the automotive genre, the network broadcasts approximately 100 hours of live event coverage every year.
- In the U.S., MotorTrend audiences can enjoy their favorite programming anytime, anywhere through Discovery GO app which features live and on-demand access.
- Content on MotorTrend includes Wheeler Dealers, Texas Metal, Roadkill, Iron Resurrection, and Barrett-Jackson Live.
- In 2017, Discovery formed a joint venture ("MTG", then known as "VTEN") with MotorTrend (then Velocity) and TEN (now MotorTrend Group) to create a leading automotive digital media company comprised of consumer automotive brands including MotorTrend, HOTROD, Automobile, and more. MotorTrend SVOD service, which is part of the transaction and is being enhanced with MotorTrend content, represents the Company's first direct-to-consumer opportunity in the U.S. Discovery has a 67.5% ownership interest in the new joint venture. The joint venture is controlled and consolidated by Discovery. (See Note 3 to the accompanying consolidated financial statements.)
- Target viewers are adults aged 25-54, particularly men.

- HGTV was acquired as a result of the acquisition of Scripps Networks.
- HGTV reached approximately 89 million subscribers in the U.S. as of December 31, 2018. HGTV reached approximately 20 million combined subscribers and viewers in international markets as of December 31, 2018.
- HGTV programming content commands an audience interested specifically in home-related topics, such as decorating, interior design, home remodeling, landscape design and real estate.
- In the U.S., HGTV audiences can enjoy their favorite programming anytime, anywhere through Discovery GO app which features live and on-demand access.
- Content on HGTV includes House Hunters, House Hunters International, Fixer Upper, Flip or Flop, The Property Brothers, Home Town, Good Bones, Restored by the Fords, Caribbean Life and Beachfront Bargain Hunt.
- Target viewers are female viewers with higher incomes in the 25 to 54 age range.

- Food Network was acquired as a result of the acquisition of Scripps Networks.
- The most distributed ad-supported cable network in the U.S., Food Network reached approximately 91 million subscribers in the U.S. as of December 31, 2018 and 110 million combined subscribers and viewers in international markets as of December 31, 2018.
- Food Network programming content attracts audiences interested specifically in food-related entertainment including competition and travel, as well as food-related topics such as recipes, food preparation, entertaining and dining out.
- In the U.S., Food Network audiences can enjoy their favorite programming anytime, anywhere through Discovery GO app which features live and on-demand access.
- Content on Food Network includes primetime series Beat Bobby Flay, Chopped, Diners, Drive-ins and Dives, The Great Food Truck Race, Guy’s Grocery Games, Worst Cooks in America, and several seasonal baking championships, as well as daytime series Barefoot Contessa, Cook Like a Pro, Giada Entertains, Girl Meets Farm, Guy's Ranch Kitchen, The Kitchen, The Pioneer Woman, Trisha’s Southern Kitchen and Valerie's Home Cooking.
- Target viewers are female viewers with higher incomes in the 25 to 54 age range.

- Travel Channel was acquired as a result of the acquisition of Scripps Networks.
- Travel Channel reached approximately 83 million subscribers in the U.S. as of December 31, 2018 and 78 million combined subscribers and viewers in international markets as of December 31, 2018.
- Travel Channel is for the bold, daring and spontaneous: adventurers who embrace the thrill of the unexpected, risk-takers who aren't afraid of a little mystery and anyone who loves a great story.
- In the U.S., Travel Channel audiences can enjoy their favorite programming anytime, anywhere through Discovery GO app which features live and on-demand access.
- Content on Travel Channel includes Mysteries at the Museum, Expedition Unknown, Bizarre Foods with Andrew Zimmern, Ghost Adventures, and Legendary Locations.
- Target viewers are adults aged 25-54.

U.S. NETWORKS

U.S. Networks generated revenues of $6.4 billion and adjusted operating income before depreciation and amortization ("Adjusted OIBDA") of $3.5 billion during 2018, which represented 60% and 85% of our total consolidated revenues and Adjusted OIBDA, respectively. Our U.S. Networks segment principally consists of national television networks. Our U.S. Networks segment owns and operates 18 national television networks, including fully distributed television networks such as Discovery Channel, TLC, Food Network, HGTV and Animal Planet.

On March 6, 2018, we completed the acquisition of Scripps Networks Interactive, Inc. (the "Scripps Acquisition"), and added HGTV, Food Network, Travel Channel, DIY Network, Cooking Channel and Great American Country to our U.S. Networks segment.

U.S. Networks generates revenues from fees charged to distributors of our television networks' first run content, which includes cable, DTH satellite and telecommunication service providers, referred to as affiliate fees; fees from distributors for licensed content and content to equity method investee networks, referred to as other distribution revenue; fees from advertising sold on our television networks and digital products, which include our GO suite of TVE applications and our virtual reality product, Discovery VR; fees from providing sales representation, network distribution services; and revenue from licensing our brands for consumer products. During 2018, distribution, advertising and other revenues were 39%, 59% and 2%, respectively, of total net revenues for this segment.

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 streaming products that are available to pay-TV subscribers and connected viewers through GO applications with live and on-demand access to award-winning shows and series from 18 U.S. networks in the Discovery portfolio: Discovery Channel, HGTV, Food Network, TLC, ID, Animal Planet, Travel Channel, MotorTrend (previously known as Velocity), Science Channel, DIY Network, Cooking Channel, Discovery Family Channel, American Heroes Channel ("AHC"), Destination America, Discovery Life, Discovery en Espanol, Discovery Familia, and Great American Country. In addition, the Oprah Winfrey Network ("OWN"), a consolidated subsidiary as of November 30, 2017, is currently on the Watch OWN application. During 2018, we achieved incremental increases in U.S. digital platform consumption. We also provide certain networks to consumers as part of subscription-based over-the-top services provided by DirectTV Now, AT&T Watch, Hulu, SlingTV, fuboTV, Sony Vue and Philo.

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

- OWN reached approximately 74 million subscribers in the U.S. as of December 31, 2018.
- OWN is the first and only network named for, and inspired by, a single iconic leader. OWN is a leading destination for premium scripted and unscripted programming from today's most innovative storytellers, with popular series such as Queen Sugar, Greenleaf, Iyanla: Fix My Life, the anticipated dramas Ambitions and David Makes Man.
- 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%. 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.
- Target viewers are African-American women aged 25-54.

- We have a 60% controlling financial interest in Discovery Family and account for it as a consolidated subsidiary. Hasbro, Inc. ("Hasbro") owns the remaining 40% of Discovery Family.
- Discovery Family reached approximately 54 million subscribers in the U.S. as of December 31, 2018.
- Discovery Family reached approximately 8 million viewers in international markets as of December 31, 2018.
- Discovery Family is programmed with a mix of original series, family-friendly movies, and programming from Discovery’s nonfiction library and Hasbro Studios’ popular animation franchises.
- In the U.S., Discovery Family audiences can enjoy their favorite programming anytime, anywhere through Discovery GO app which features live and on-demand access.
- Content on Discovery Family includes My Little Pony: Friendship is Magic and Equestria Girls, Transformers: Rescue Bots Academy, Littlest Pet Shop, lifestyle programming and family-friendly movies.
- Target viewers are children aged 2-11, family inclusive and adults aged 25-54.

- AHC reached approximately 48 million subscribers in the U.S. as of December 31, 2018. AHC also reached approximately 1 million subscribers through a licensing arrangement with partners in Canada included in the U.S. Networks segment as of December 31, 2018.
- AHC provides a rare glimpse into major events that shaped our world, visionary leaders and unexpected heroes who made a difference, and the great defenders of our freedom.
- In the U.S., AHC audiences can enjoy their favorite programming anytime, anywhere through Discovery GO app which features live and on-demand access.
- Content on AHC includes Gunslingers, Apocalypse WWI and America: Fact vs. Fiction.
- Target viewers are adults aged 35-64, particularly men.

- Destination America reached approximately 45 million subscribers in the U.S. as of December 31, 2018.
- Destination America celebrates the people, places and stories of the United States, showcasing programming about myths, legends, food, adventure, natural history, and iconic landscapes from Alaska to Appalachia.
- In the U.S., Destination America audiences can enjoy their favorite programming anytime, anywhere through Discovery GO app which features live and on-demand access.
- Content on Destination America includes Ghosts of Shepherdstown, Paranormal Lockdown, Epic Log Homes, BBQ Pitmasters, and Buying Alaska.
- Target viewers are adults aged 25-54.

- Discovery Life reached approximately 43 million subscribers in the U.S. as of December 31, 2018.
- Discovery Life reached approximately 8 million subscribers in international markets as of December 31, 2018.
- Discovery Life entertains viewers with gripping, real-life dramas, featuring storytelling that chronicles the human experience from cradle to grave, including forensic mysteries, amazing medical stories, emergency room trauma, baby and pregnancy programming, parenting challenges, and stories of extreme life conditions.
- In the U.S., Discovery Life audiences can enjoy their favorite programming anytime, anywhere through Discovery GO app which features live and on-demand access.
- Content on Discovery Life includes Untold Stories of the E.R., Body Bizarre, My Strange Addiction, Emergency 24/7 and Diagnose Me.
- Target viewers are adults aged 25-54, particularly women.

- DIY Network was acquired as a result of the acquisition of Scripps Networks.
- DIY Network reached approximately 54 million subscribers in the U.S. as of December 31, 2018 and 3 million combined subscribers and viewers in international markets as of December 31, 2018.
- In the U.S., DIY Network audiences can enjoy their favorite programming anytime, anywhere through Discovery GO app which features live and on-demand access.
- Content on DIY Channel includes Barnwood Builders, The Vanilla Ice Project, Building Alaska, First Time Flippers, Tiny House Big Living and Texas Flip N Move.
- Target viewers are male viewers with higher incomes in the 25 to 54 age range.

- Cooking Channel was acquired as a result of the acquisition of Scripps Networks.
- Our U.S. Networks segment owns a controlling interest of 68.7% of Cooking Channel. Cooking Channel reached approximately 60 million subscribers in the U.S. as of December 31, 2018 and 2 million combined subscribers and viewers in international markets as of December 31, 2018.
- In the U.S., Cooking Channel audiences can enjoy their favorite programming anytime, anywhere through Discovery GO app which features live and on-demand access.
- Content on Cooking Channel includes Beach Bites with Katie Lee, The Best Thing I Ever Ate, Carnival Eats, Cheap Eats, Food Fact or Fiction?, Good Eats: Reloaded, Man Fire Food and Man's Greatest Food.
- Target viewers are female viewers with higher incomes in the 25 to 54 age range.

- Great American Country was acquired as a result of the acquisition of Scripps Networks.
- Great American Country reached approximately 50 million subscribers in the U.S. as of December 31, 2018.
- In the U.S., Great American Country audiences can enjoy their favorite programming anytime, anywhere through Discovery GO app which features live and on-demand access.
- Content on Great American Country includes Going RV, Flea Market Flip, Log Cabin Living, and Living Alaska.
- Target viewers are fans of country music and country lifestyle.

INTERNATIONAL NETWORKS

International Networks generated revenues of $4.1 billion and Adjusted OIBDA of $1.1 billion during 2018, which represented 39% and 26% 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 MotorTrend (previously known as Velocity and known as Turbo outside of the U.S.), along with brands exclusive to International Networks, including Eurosport, Discovery Kids, DMAX, Discovery Home & Health, and TVN. TVN was acquired in March 2018, as part of the Scripps Acquisition. As of December 31, 2018, International Networks operated over 400 unique distribution feeds in over 50 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 and broadcast 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 75 networks, with as many as 14 networks distributed in any particular country or territory across the more than 220 countries and territories around the world. International Networks pursues distribution across all television platforms based on the specific dynamics of local markets and relevant commercial agreements.

Effective January 1, 2018, we realigned our International Networks management reporting structure, which was not affected by the Scripps Acquisition. The table below represents the reporting structures during the periods presented in the consolidated financial statements.

Reporting Structure effective January 1, 2018	Reporting Structure effective January 1, 2017
Europe, Middle East and Africa ("EMEA"), includes the former Central Europe, the Middle East and Africa ("CEEMEA"), Southern Europe, Nordics and the U.K. Additionally, the grouping includes Australia and New Zealand, previously included as part of Asia-Pacific	CEEMEA, expanded to include Belgium, the Netherlands and Luxembourg Nordics U.K. Southern Europe
Latin America	Latin America
Asia-Pacific now excludes Australia and New Zealand	Asia-Pacific

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

- For 30 years, Eurosport has established itself as a household name for live sports entertainment, reaching millions of fans across Europe and Asia via Eurosport 1, Eurosport 2, the network's direct-to-consumer streaming service, "Eurosport Player" and Eurosport.com.
- Viewing subscribers reached by each brand as of December 31, 2018 were as follows: Eurosport 1: 157 million and Eurosport 2: 86 million.
- Live, exclusive and premium sports is at the core of what Eurosport does, showcasing sporting events with both local and pan-regional appeal. Viewers across Europe can enjoy live action from some of the best sporting spectacles including the Tour de France and cycling's Grand Tours, all International Ski Federation World Cup and World Championship events as well as unrivaled coverage of all four Grand Slam tennis tournaments.
- Increasingly, Eurosport is investing in more exclusive and localized rights to drive local audience and commercial relevance. Important local sports rights include the Bundesliga in Germany, Eliteserien in Norway, Europa League in Sweden and the ATP World Tour tennis in France.
- Two-and-a-half years after securing the rights that led to Eurosport becoming the Home of the Olympics in Europe from 2018 through 2024, Eurosport delivered its first Olympic Games in PyeongChang. The PyeongChang Olympic Games in February represented an opportunity to engage sports fans across Europe as well as new and younger audiences. The Eurosport Player was the only place to watch every minute from South Korea while sub-license agreements with some of the biggest national broadcasters across Europe realized Eurosport’s objective to reach more people on more screens than ever before. These rights were acquired for €1.3 billion ($1.5 billion as of December 31, 2018).

- As of December 31, 2018, DMAX reached approximately 149 million viewers through FTA networks, according to internal estimates.
- DMAX is a men’s factual entertainment channel in Asia and Europe.

- Discovery Kids reached approximately 144 million viewers, according to internal estimates, as of December 31, 2018.
- Discovery Kids is a leading children's network in Latin America and Asia.

- TVN was acquired as a result of the acquisition of Scripps Networks.
- TVN operates a portfolio of free-to-air and pay-TV lifestyle, entertainment, and news networks in Poland, including TVN, TVN7, TTV, HGTV Home & Garden, TVN24, TVN Style, TVN Turbo, TVN24 BiS, TVN Fabu³a, Travel Channel, Food Network, iTVN, iTVNExtra & NTL.
- TVN reached approximately 117 million combined subscribers as of December 31, 2018.

Our International Networks segment also owns and operates the following regional television networks, which reached the following number of subscribers and viewers via pay and FTA or broadcast networks, respectively, as of December 31, 2018:

	Television Service	International Subscribers/Viewers (millions)
Food Network (excluding TVN)	Pay	102
Quest	FTA	74
Travel Channel (excluding TVN)	Pay	70
Dsport	FTA	47
Nordic broadcast networks[a]	Broadcast	34
Quest Red	FTA	27
Giallo	FTA	25
Frisbee	FTA	25
K2	FTA	25
Nove	FTA	25
Discovery World	Pay	20
DKISS	Pay	19
Asian Food Channel	Pay	15
Discovery HD Theater	Pay	15
Fine Living Network	Pay	14
Shed	Pay	12
HGTV Home & Garden (excluding TVN)	Pay	11
Discovery History	Pay	10
Discovery Civilization	Pay	9
Discovery Historia	Pay	6
Discovery en Espanol (U.S.)	Pay	5
Discovery Familia (U.S.)	Pay	5

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

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

The other significant source of revenue for International Networks relates to advertising sold on our television networks and across distribution platforms, similar to U.S. Networks. Advertising revenue is dependent upon a number of factors, including the development of pay and FTA television markets, the number of subscribers to and viewers of our channels, viewership demographics, the popularity of our programming, and our ability to sell commercial time over a portfolio of channels on multiple platforms. In certain markets, our advertising sales business operates with in-house sales teams, while we rely on external sales representation services in other markets.

During 2018, distribution, advertising and other revenues were 50%, 43% and 7%, respectively, of total net revenues for this segment. While the Company has traditionally operated cable networks, in recent years an increasing portion of the Company's international advertising revenue is generated by FTA or broadcast networks, unlike U.S. Networks. During 2018, pay-TV networks generated 38% of International Networks' advertising revenue and FTA or broadcast networks generated 62% of International Networks' advertising revenue.

International Networks' largest cost is content expense for localized programming disseminated via more than 400 unique distribution feeds. While our International Networks segment maximizes the use of programming from U.S. Networks, we also develop local programming that is tailored to individual market preferences and license the rights to air films, television series and sporting events from third parties. International Networks amortizes the cost of capitalized content rights based on the proportion of current estimated revenues relative to the estimated remaining total lifetime revenues, which results in either an accelerated method or a straight-line method over the estimated useful lives of the content of up to five years. Content acquired from U.S. Networks and content developed locally airing on the same network is amortized similarly, as amortization rates vary by network. More than half of International Networks' content is amortized using an accelerated amortization method, while the remainder is amortized on a straight-line basis. The costs for multi-year sports programming arrangements are expensed when the event is broadcast based on the estimated relative value of each component of the arrangement.

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 have a lower segment margin due to lower economies of scale from being in over 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.

On June 23, 2016, the U.K. held a referendum in which voters approved an exit from the European Union (“E.U.”), commonly referred to as “Brexit.” E.U. law provides for a departing member state to have a two-year notice period to negotiate a term of exit, which the U.K. triggered on March 27, 2017. On November 22, 2018, a draft withdrawal agreement was published detailing the framework of the future relationship between the U.K. and the E.U. This agreement has not yet been ratified by the U.K. and European Parliaments and negotiations continue to find a mutually acceptable text in time for the deadline of March 29, 2019. Brexit may have an adverse impact on advertising, subscribers, distributors and employees, as described in Item 1A, Risk Factors, below. We continue to monitor the situation for potential effects to our distribution and licensing agreements, unusual foreign currency exchange rate fluctuations, and changes to the legal and regulatory landscape.

EDUCATION AND OTHER

Education and Other generated revenues of $54 million during 2018, which represented 1% of our total consolidated revenues. Our Education Business was 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. On April 30, 2018, we sold an 88% controlling equity stake in our Education Business to Francisco Partners for a sale price of $113 million, which resulted in a gain of $84 million upon disposition. We 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.) Other is comprised of a production studio that develops content for our networks and other television service providers throughout the world. Our wholly-owned production studio provides services to our U.S. Networks and International Networks segments at cost. The revenues and offsetting expenses associated with these inter-segment production services have been eliminated from the results of operations for Education and Other.

On April 28, 2017, the Company sold Raw and Betty LLC 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.

CONTENT DEVELOPMENT

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

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

International Networks maximizes the use of content from our U.S. Networks. Our non-fiction content tends to be culturally neutral and maintains its relevance for an extended period of time. As a result, a significant amount of our non-fiction content translates well across international borders and is made even more accessible through extensive use of dubbing and subtitles in local languages. Our content can be re-edited and updated in a cost-effective manner to provide topical versions of subject matter that can be utilized around the world. International Networks executes a localization strategy by offering content from U.S. Networks, customized content and localized schedules via our distribution feeds. While our International Networks segment maximizes the use of content from U.S. Networks, we also develop local content that is tailored to individual market preferences and license the rights to air films, television series and sporting events from third-party producers. To that end, during 2018, we entered into a 12-year partnership with the PGA Tour that includes TV and online rights to the PGA Tour outside the United States. Effective January 1, 2019, we announced the launch of GOLFTV, a new live and on-demand international video streaming service providing over 2,000 hours of live golf programming each year and extensive premium content on-demand. Discovery plans to invest more than $2 billion over the course of the partnership, including licensing rights and building the GOLFTV platform.

Our largest single cost is content expense, which includes content amortization, content impairment and production costs. We amortize the cost of capitalized content rights based on the proportion that the current year's estimated revenues bear to the estimated remaining total lifetime revenues, which normally results in an accelerated amortization method over the estimated useful lives. However, certain networks also utilize a straight-line method of amortization over the estimated useful lives of the content. Content is amortized primarily over periods of three to four years. The costs for multi-year sports programming arrangements are expensed when the event is broadcast based on the estimated relative value of each season in the arrangement. Content assets are reviewed for impairment when impairment indicators are present, such as low viewership or limited expected use. Impairment losses are recorded when content asset carrying value exceeds net realizable value.

REVENUES

We generate revenues principally from the sale of advertising on our networks and digital products and from fees charged to distributors who distribute our network content, which primarily include cable, DTH satellite, telecommunication and digital service providers. Other transactions include curriculum-based products and services, affiliate and advertising sales representation services, production studios content development and services, content licenses and the licensing of our brands for consumer products. During 2018, distribution, advertising and other revenues were 43%, 52% and 5%, respectively, of consolidated revenues. No individual customer represented more than 10% of our total consolidated revenues for 2018, 2017 or 2016.

Distribution

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

In the U.S., more than 96% of distribution revenues come from the top 10 distributors, with whom we have agreements that expire at various times from 2019 through 2023. Outside of the U.S., approximately 39% of distribution revenue comes from the top 10 distributors. Distribution fees are typically collected ratably throughout the year. International television markets vary in their stages of development. Some, notably the U.K., are more advanced digital multi-channel television markets, while others operate in the analog environment with varying degrees of investment from distributors in expanding channel capacity or converting to digital.

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

Advertising

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

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

Advertising revenue is dependent upon a number of factors, including the stage of development of television markets, the popularity of FTA television, the number of subscribers to our channels, viewership demographics, the popularity of our content and our ability to sell commercial time over a group of channels. Revenue from advertising is subject to seasonality, market-based variations and general economic conditions. Advertising revenue is typically highest in the second and fourth quarters. In some cases, advertising sales are subject to ratings guarantees that require us to provide additional advertising time if the guaranteed audience levels are not achieved.

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

Other

We also generate income associated with content production from our production studio. Prior to the sale of the Education Business on April 30, 2018, we generated income from curriculum-based products and services, the licensing of our brands for consumer products and third-party content sales.

COMPETITION

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

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

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

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

Our production studios compete with other production and media companies for talent. Prior to the sale of the Education Business on April 30, 2018, our education business competed with other providers of curriculum-based products and services to schools.

INTELLECTUAL PROPERTY

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

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

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

REGULATORY MATTERS

Our businesses are subject to and affected by regulations of U.S. federal, state and local government authorities, and our international operations are subject to laws and regulations of the countries and international bodies, such as the E.U., in which we operate. Content networks, such as those owned by us, are regulated by the Federal Communications Commission (“FCC”) including some regulations that only apply to content networks affiliated with a cable television operator. Other FCC regulations, although imposed on cable television operators and direct broadcast satellite ("DBS") operators and other distributors, affect content networks indirectly. The rules, regulations, policies and procedures affecting our businesses are constantly subject to change. These descriptions are summary in nature and do not purport to describe all present and proposed laws and regulations affecting our businesses.

Program Access

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

“Must-Carry”/Retransmission Consent

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

Accessibility and Advertising Restrictions

Certain of our content networks and some of our IP-delivered video content must provide closed-captioning and video description of some of their programming. Our content networks and digital products intended primarily for children 12 years of age and under must comply with certain limits on advertising. Commercials embedded in our networks' content stream must adhere to certain standards for ensuring that those commercials are not transmitted at louder volumes than our program material.

Obscenity Restrictions

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

Regulation of the Internet

We operate several digital products and websites that we use to distribute information about our programs and to offer consumers the opportunity to purchase consumer products and services. Internet services are now subject to regulation in the U.S. relating to the privacy and security of personally identifiable user information and acquisition of personal information from children under 13, including the federal Children's Online Privacy Protection Act and the federal Controlling the Assault of Non-Solicited Pornography and Marketing Act. In addition, a majority of states have enacted laws that impose data security and security breach obligations. Additional federal and state laws and regulations may be adopted with respect to the Internet or other on-line services, covering such issues as user privacy, child safety, data security, advertising, pricing, content, copyrights and trademarks, access by persons with disabilities, distribution, taxation and characteristics and quality of products and services. We must design and operate our digital products and websites in compliance with these laws and regulations. In addition, to the extent we offer products and services to on-line consumers outside the U.S., the laws and regulations of foreign jurisdictions, including, without limitation, consumer protection, privacy, advertising, data retention, intellectual property, and content limitations, may impose additional compliance obligations on us.

Foreign Laws and Regulations

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

EMPLOYEES

As of December 31, 2018, we had approximately 9,000 employees, including full-time and part-time employees of our wholly-owned subsidiaries and consolidated ventures. Scripps Networks had approximately 4,000 employees at the date of the acquisition.

AVAILABLE INFORMATION

All of our filings with the U.S. Securities and Exchange Commission (the "SEC"), including reports on Form 10-K, Form 10-Q and Form 8-K, and all amendments to such filings are available free of charge at the investor relations section of our website, https://corporate.discovery.com, as soon as reasonably practicable after such material is filed with, or furnished to, the SEC. Our annual report, corporate governance guidelines, code of business ethics, audit committee charter, compensation committee charter, and nominating and corporate governance committee charter are also available on our website. In addition, we will provide a printed copy of any of these documents, free of charge, upon written request to: Investor Relations, Discovery, Inc., 850 Third Avenue, 8th Floor, New York, NY 10022-7225. Additionally, the SEC maintains a website at http://www.sec.gov that contains quarterly, annual and current reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, including the Company.

The information contained on our website is not part of this Annual Report on Form 10-K and is not incorporated by reference herein.

ITEM 1A. Risk Factors.
Investing in our securities involves risk. In addition to the other information contained in this report, you should consider the following risk factors before investing in our securities.
Risks Related to Our Business
There has been a shift in consumer behavior as a result of technological innovations and changes in the distribution of content, which may affect our viewership and the profitability of our business in unpredictable ways.
Technology and business models in our industry continue to evolve rapidly. Consumer behavior related to changes in content distribution and technological innovation affect our economic model and viewership in ways that are not entirely predictable.
Consumers are increasingly viewing content on a time-delayed or on-demand basis from traditional distributors and from connected apps and websites and on a wide variety of screens, such as televisions, tablets, mobile phones and other devices. Additionally, devices that allow users to view television programs on a time-shifted basis and technologies that enable users to fast-forward or skip programming, including commercials, such as DVRs and portable digital devices and systems that enable users to store or make portable copies of content may affect the attractiveness of our offerings to advertisers and could therefore adversely affect our revenues. There is increased demand for short-form, user-generated and interactive content, which have different economic models than our traditional content offerings. Likewise, distributors are offering smaller programming packages known as “skinny bundles,” which are delivered at a lower cost than traditional offerings and sometimes allow consumers to create a customized package of networks, that are gaining popularity among consumers. If our networks are not included in these packages or consumers favor alternative offerings, we may experience a decline in viewership and ultimately the demand for our programming, which could lead to lower distribution and advertising revenues. We have also seen declines in subscribers to the traditional cable bundle. In 2018, total U.S. Networks portfolio subscribers declined 4% while subscribers to our fully distributed networks were consistent with the prior year. Each distribution model has different risks and economic consequences for us, so the rapid evolution of consumer preferences may have an economic impact that is not completely predictable. Distribution windows are also evolving, potentially affecting revenues from other windows. If we cannot ensure that our distribution methods and content are responsive to our target audiences, our business could be adversely affected.
Consolidation among cable and satellite providers, both domestically and internationally, could have an adverse effect on our revenue and profitability.
Consolidation among cable and satellite operators has given the largest operators considerable leverage in their relationships with programmers, including us. In the U.S., approximately 96% of our distribution revenues come from the top 10 distributors. For the International Networks segment, approximately 39% of distribution revenue comes from the 10 largest distributors. We currently have agreements in place with the major cable and satellite operators in U.S. Networks and International Networks which expire at various times through 2023. Some of our largest distributors have combined, and as a result, have gained, or may gain, market power, which could affect our ability to maximize the value of our content through those platforms. In addition, many of the countries and territories in which we distribute our networks also have a small number of dominant distributors. Continued consolidation within the industry could reduce the number of distributors to carry our programming, subject our affiliate fee revenue to greater volume discounts, and further increase the negotiating leverage of the cable and satellite television system operators which could have an adverse effect on our financial condition or results of operations.
The success of our business depends on the acceptance of our entertainment content by our U.S. and foreign viewers, which may be unpredictable and volatile.
The production and distribution of entertainment content are inherently risky businesses because the revenue we derive and our ability to distribute our content depend primarily on consumer tastes and preferences that often change in unpredictable ways. Our success depends on our ability to consistently create and acquire content that meets the changing preferences of viewers in general, in special interest groups, in specific demographic categories and in various international marketplaces. As the home of the Olympic Games in Europe until 2024, we have been developing and innovating new forms of content in connection with the Olympic Games. Our success with the Olympics depends on audience acceptance of this content. If viewers do not find our Olympic Games content

acceptable, we could see low viewership, which could lead to low distribution and advertising revenues.
The commercial success of our content also depends upon the quality and acceptance of competing content available in the applicable marketplace. Other factors, including the availability of alternative forms of entertainment and leisure time activities, general economic conditions, piracy, and growing competition for consumer discretionary spending may also affect the audience for our content. Audience sizes for our media networks are critical factors affecting both the volume and pricing of advertising revenue that we receive, and the extent of distribution and the license fees we receive under agreements with our distributors. Consequently, reduced public acceptance of our entertainment content may decrease our audience share and adversely affect our results of operations.

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

On June 23, 2016, the U.K. held a referendum in which voters approved an exit from the European Union (“E.U.”), commonly referred to as “Brexit.” As a result of the referendum, the British government has begun negotiating the terms of the U.K.’s future relationship with the E.U. Ratification should be finalized by March 29, 2019, although there is still considerable political uncertainty around the outcome. The effects of Brexit will depend on any agreements the U.K. makes to retain access to the E.U. markets either during a transitional period or more permanently. The measures could potentially disrupt the markets we serve and may cause us to lose subscribers, distributors and employees. If the U.K. loses access to the single E.U. market, it could have a detrimental impact on our U.K. growth. Such a decline could also make our doing business in Europe more complex, which could involve operational changes in order to protect, delay and reduce the scope of our distribution and licensing agreements. Without access to the single E.U. market, it may be more challenging and costly to obtain intellectual property rights for our content within the U.K. or distribute our services in Europe. Discovery, like many international media businesses, has sought to mitigate this risk by applying for broadcast licenses in remaining E.U. Member States. There can be no assurance that this will be successful. In addition, Brexit could lead to legal uncertainty and potentially divergent national laws and regulations as the U.K. determines which E.U. laws to replace and replicate. If there are changes to U.K. immigration policy as a result of Brexit, this could affect our employees and their ability to move freely between the E.U. member states for work-related matters.

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

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

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

Our businesses operate in highly competitive industries.

The entertainment and media programming industries in which we operate are highly competitive. We compete with other programming networks for distribution, viewers and advertising. We also compete for viewers with other forms of media entertainment, such as home video, movies, periodicals, on-line and mobile activities. In particular, websites and search engines have seen significant advertising growth, a portion of which has moved from traditional cable network and satellite advertisers. Businesses, including ours, that offer multiple services, or that may be vertically integrated and offer both video distribution and programming content, may face closer regulatory review from the competition authorities in the countries in which we currently have operations. If our distributors have to pay higher rates to holders of sports broadcasting rights, it might be difficult for us to negotiate higher rates for distribution of our networks. The ability of our businesses to compete successfully depends on a number of factors, including our ability to consistently supply high quality and popular content, access our niche viewership with appealing category-specific content, adapt to new technologies and distribution platforms and achieve widespread distribution. There can be no assurance that we will be able to compete successfully in the future against existing or new competitors, or that increasing competition will not have a material adverse effect on our business, financial condition or results of operations.

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

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

Interpretation of some terms of our distribution agreements may have an adverse effect on the distribution payments we receive under those agreements.

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

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

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

In addition, we face regulatory risk associated with the acquisition, storage, disclosure, use and protection of personal data, including under the European Union General Data Protection Regulation ("GDPR") and various other domestic and international privacy and data security laws and regulations, which are continually evolving. These evolving data protection laws may require Discovery to expend significant resources to implement additional data protection measures, and Discovery's actual or alleged failure to comply with such laws could result in legal claims, regulatory enforcement actions and significant fines and penalties.

Financial performance for our equity method investments and investments without readily determinable fair value may differ from current estimates.

We have equity investments in several entities and the accounting treatment applied for these investments varies depending on a number of factors, including, but not limited to, our percentage ownership and the level of influence or control we have over the relevant entity. Any losses experienced by these entities could adversely impact our results of operations and the value of our investment. In addition, if these entities were to fail and cease operations, we may lose the entire value of our investment and the stream of any shared profits. Some of our ventures may require additional uncommitted funding. We also have significant investments in entities that we have accounted for as investments without readily determinable fair value. If these entities experience significant losses or were to fail and cease operations, our investments could be subject to impairment and the loss of a part or all of our investment value.

We may not be able to successfully integrate the Scripps Networks business with our own, realize the anticipated benefits of the Scripps Networks acquisition or manage our expanded operations, any of which would adversely affect our results of operations.

We have devoted, and expect to continue to devote, significant management attention and resources to integrating our organization, procedures, and operations with those of Scripps Networks. Such integration efforts are costly due to the large number of processes, policies, procedures, locations, operations, technologies and systems to be integrated, including purchasing, accounting and finance, sales, service, operations, payroll, pricing, marketing and employee benefits. Integration expenses could, particularly in the short term, exceed the cost synergies we expect to achieve from the elimination of duplicative expenses and the realization of economies of scale, which could result in significant charges to earnings that we cannot currently quantify. Potential difficulties that we may encounter as part of the integration process include the following:

- our inability to successfully combine our business with Scripps Networks in a manner that permits the combined company to achieve the full synergies and other benefits anticipated to result from the merger; and
- complexities associated with managing the combined businesses, including difficulty addressing possible differences in corporate cultures and management philosophies and the challenge of integrating products, services, complex and different information technology systems, control and compliance processes, technology, networks and other assets of each of the companies in a cohesive manner.

Following the merger, the size and complexity of the business of the combined company increased significantly. Our future success depends, in part, upon our ability to manage this expanded business, which will pose substantial challenges for management, including challenges related to the management and monitoring of new operations and associated increased costs and complexity. There can be no assurances that we will be successful or that we will realize the expected synergies and benefits anticipated from the merger.

General Risks

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

The success of our business depends in part on our ability to maintain the intellectual property rights to our entertainment content. We are fundamentally a content company, and piracy of our brands, television networks, digital content and other intellectual property has the potential to significantly and adversely affect us. Piracy is particularly prevalent in many parts of the world that lack copyright and other protections similar to existing law in the U.S. It is also made easier by technological advances allowing the conversion of content into digital formats, which facilitates the creation, transmission and sharing of high-quality unauthorized copies. Unauthorized distribution of copyrighted material over the Internet is a threat to copyright owners’ ability to protect and exploit their property. The proliferation of unauthorized use of our content may have an adverse effect on our business and profitability because it reduces the revenue that we potentially could receive from the legitimate sale and distribution of our content. Litigation may be necessary to enforce our intellectual property rights, protect trade secrets or to determine the validity or scope of proprietary rights claimed by others.

We are subject to risks related to our international operations.

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

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

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

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

Global economic conditions may have an adverse effect on our business.

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

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

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

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

Programming services like ours, and the distributors of our services, including cable operators, satellite operators and other multi-channel video programming distributors, are regulated by U.S. federal laws and regulations issued and administered by various federal agencies, including the FCC, as well as by state and local governments, in ways that affect the daily conduct of our video content business. See the discussion under “Business – Regulatory Matters” above.

The U.S. Congress, the FCC and the courts currently have under consideration, and may adopt or interpret in the future, new laws, regulations and policies regarding a wide variety of matters that could, directly or indirectly, affect the operations of our U.S. media properties or modify the terms under which we offer our services and operate.

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

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

Increased volatility and disruptions in the U.S. and global financial and equity markets may make it more difficult for us to obtain financing for our operations or investments or increase the cost of obtaining financing. Our borrowing costs can be affected by short and long-term debt ratings assigned by independent rating agencies which are based, in significant part, on our performance as measured by credit metrics such as interest coverage and leverage ratios. A low rating could increase our cost of borrowing or make it more difficult for us to obtain future financing. Unforeseeable changes in foreign currencies could negatively impact our results of operations and calculations of interest coverage and leverage ratios.

Acquisitions and other strategic transactions present many risks and we may not realize the financial and strategic goals that were contemplated at the time of any transaction.

From time to time we make acquisitions, investments and enter into other strategic transactions, including the transaction with Scripps Networks. In connection with such acquisitions and strategic transactions, we may incur unanticipated expenses, fail to realize anticipated benefits, have difficulty incorporating the acquired businesses, disrupt relationships with current and new employees, subscribers, affiliates and vendors, incur significant debt, or have to delay or not proceed with announced transactions. Additionally, regulatory agencies, such as the FCC or U.S. Department of Justice may impose additional restrictions on the operation of our business as a result of our seeking regulatory approvals for any significant acquisitions and strategic transactions. The occurrence of any of these events could have an adverse effect on our business.

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

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

- the difficulty of assimilating the operations and personnel of acquired companies into our operations;
- the potential disruption of our ongoing business and distraction of management;
- the incurrence of additional operating losses and operating expenses of the businesses we acquired or in which we invested;
- the difficulty of integrating acquired technology and rights into our services and unanticipated expenses related to such integration;
- the failure to successfully further develop an acquired business or technology and any resulting impairment of amounts currently capitalized as intangible assets;
- the failure of strategic investments to perform as expected or to meet financial projections;
- the potential for patent and trademark infringement and data privacy and security claims against the acquired companies, or companies in which we have invested;
- litigation or other claims in connection with acquisitions, acquired companies, or companies in which we have invested;
- the impairment or loss of relationships with customers and partners of the companies we acquired or in which we invested or with our customers and partners as a result of the integration of acquired operations;
- the impairment of relationships with, or failure to retain, employees of acquired companies or our existing employees as a result of integration of new personnel;

- our lack of, or limitations on our, control over the operations of our joint venture companies;
- the difficulty of integrating operations, systems, and controls as a result of cultural, regulatory, systems, and operational differences;

- in the case of foreign acquisitions and investments, the impact of particular economic, tax, currency, political, legal and regulatory risks associated with specific countries; and
- the impact of known potential liabilities or liabilities that may be unknown, including as a result of inadequate internal controls, associated with the companies we acquired or in which we invested.

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

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

Our business depends upon the continued efforts, abilities and expertise of our corporate and divisional executive teams and entertainment personalities. With respect to the Scripps Networks acquisition, our success depends in part upon our ability to retain key employees. Following the completion of a merger, like the Scripps Acquisition, current and prospective employees may experience uncertainty about their future roles with Discovery and choose to pursue other opportunities, which could have an adverse effect on Discovery. If key employees depart, the integration of Scripps Networks with Discovery may be more difficult and our business may be adversely affected. Additionally, we employ or contract with entertainment personalities who may have loyal audiences. These individuals are important to audience endorsement of our programs and other content. There can be no assurance that these individuals will remain with us or retain their current audiences. If we fail to retain key individuals or if our entertainment personalities lose their current audience base, our operations could be adversely affected.

US tax reform could adversely impact our international business and results of operations.

Recently enacted US tax reform could adversely impact our business and results of operations. On December 22, 2017, President Trump signed the 2017 Tax Cuts and Jobs Act ("TCJA"), which includes a broad range of tax reform regulations affecting businesses, including corporate tax rates, business deductions, and international tax provisions. Some of the changes, like the new tax on global intangible low-taxed income ("GILTI"), a deemed repatriation tax on previously deferred foreign income, has had an adverse impact to the results of our international operations. Others, like the reduction to the US corporate income tax rate from 35% to 21%, has had a positive impact to our overall tax liability. And some, like the base erosion and anti-abuse tax ("BEAT"), have resulted in little or no impact. Additional guidance continues to be issued through Treasury's proposed and final regulations and we continue to assess their impact.

Outside of the U.S., we continue to face the increasing complexity of operating in multiple non-US jurisdictions, many of which have increased scrutiny and have either changed, or plan to change, their international tax systems due to the Organisation for Economic Co-operation and Development’s (“OECD”) Base Erosion and Profit Shifting (“BEPS”) recommendations. The BEPS recommendations call for enhanced transparency and reporting relating to companies’ entity structures and transfer pricing policies. These have been implemented through various initiatives including the requirement for taxpayers to comply with global country-by-country reporting and the filing of a global master file as well as the introduction of the multilateral instrument (“MLI”) which allows taxing authorities to better take aim at multinational tax avoidance. We continue to address and comply with these compliance and reporting requirements.

Additional complexity has also arisen in state aid: state resources used to provide recipients an advantage on a selective basis that has or could distort competition and affect trade between European member states. In recent years the European Commission (“EC”) has increased their scrutiny on state aid and deviated from the historical European Union (“EU”) state aid practices. There is great uncertainty about the future of EU state aid practices based on the appeals of many significant EC rulings against multinational corporations that are currently being challenged. While any potential impact of these rulings is difficult to assess, we believe our transfer pricing analyses conducted pursuant to accepted OECD methodologies assist in mitigating risk associated with our past or current agreements.

In addition, the determination of our worldwide provision for income taxes and current and deferred tax assets and liabilities requires judgment and estimation. Our income taxes could also be materially adversely affected by earnings being lower than anticipated in jurisdictions that have lower statutory tax rates and higher than anticipated in jurisdictions that have higher statutory tax rates, by changes in the valuation of our deferred tax assets and liabilities, or by changes in worldwide tax laws, regulations, or accounting principles.

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Risks Related to Our Debt

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

As of December 31, 2018, we had approximately $17 billion of consolidated debt, including capital leases, of which $1.9 billion is current. Our substantial level of indebtedness increases the possibility that we may be unable to generate cash sufficient to pay when due the principal of, interest on, or other amounts associated with our indebtedness. In addition, we have the ability to draw down our $2.5 billion revolving credit facility in the ordinary course, which would have the effect of increasing our indebtedness. We are also permitted, subject to certain restrictions under our existing indebtedness, to obtain additional long-term debt and working capital lines of credit to meet future financing needs. This would have the effect of increasing our total leverage.

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

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

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

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

Risks Related to Corporate Structure

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

Our ability to meet our financial obligations and other contractual commitments will depend upon our ability to access cash. We are a holding company, and our sources of cash include our available cash balances, net cash from the operating activities of our subsidiaries, any dividends and interest we may receive from our investments, availability under our credit facility or any credit facilities that we may obtain in the future and proceeds from any asset sales we may undertake in the future. The ability of our operating subsidiaries, including Discovery Communications, LLC, to pay dividends or to make other payments or advances to us will depend on their individual operating results and any statutory, regulatory or contractual restrictions, including restrictions under our credit facility, to which they may be or may become subject. Under the TCJA, we were 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.

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

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

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

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

Advance/Newhouse will elect three directors annually for so long as it owns a specified minimum amount of our Series A-1 convertible preferred stock. The Advance/Newhouse Series A-1 convertible preferred stock, which votes with our common stock on all matters other than the election of directors, represents approximately 24% of the voting power of our outstanding shares. The Series A-1 convertible preferred stock also grants Advance/Newhouse consent rights over a range of our corporate actions, including fundamental changes to our business, the issuance of additional capital stock, mergers and business combinations and certain acquisitions and dispositions.

None of the Liberty Entities own any interest in us. Mr. Malone beneficially owns stock of Liberty Media representing approximately 46% of the aggregate voting power of its outstanding stock, owns shares representing approximately 28% of the aggregate voting power of Liberty Global, shares representing approximately 38% of the aggregate voting power of Liberty Interactive, shares representing approximately 46% of the aggregate voting power of Liberty Broadband and shares representing approximately 21% of the aggregate voting power (other than with respect to the election of the common stock directors) of our outstanding stock. Mr. Malone controls approximately 28% of our aggregate voting power relating to the election of our eight common stock directors, assuming that the preferred stock owned by Advance/Newhouse has not been converted into shares of our common stock. Our directors who are also directors of the Liberty Entities own stock and stock incentives of the Liberty Entities and own our stock and stock incentives.

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

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

It may be difficult for a third party to acquire us, even if such acquisition would be beneficial to our stockholders.
Certain provisions of our charter and bylaws may discourage, delay or prevent a change in control that a stockholder may consider favorable. These provisions include the following:

- authorizing a capital structure with multiple series of common stock: a Series B that entitles the holders to ten votes per share, a Series A-1 that entitles the holders to one vote per share and a Series C that, except as otherwise required by applicable law, entitles the holders to no voting rights;
- authorizing the Series A-1 convertible preferred stock with special voting rights, which prohibits us from taking any of the following actions, among others, without the prior approval of the holders of a majority of the outstanding shares of such stock:
- increasing the number of members of the Board of Directors above ten;
- making any material amendment to our charter or by-laws;
- engaging in a merger, consolidation or other business combination with any other entity; and
- appointing or removing our Chairman of the Board or our Chief Executive Officer;
- authorizing the issuance of “blank check” preferred stock, which could be issued by our Board of Directors to increase the number of outstanding shares and thwart a takeover attempt;
- classifying our common stock directors with staggered three-year terms and having three directors elected by the holders of the Series A convertible preferred stock, which may lengthen the time required to gain control of our Board of Directors;
- limiting who may call special meetings of stockholders;
- prohibiting stockholder action by written consent (subject to certain exceptions), thereby requiring stockholder action to be taken at a meeting of the stockholders;
- establishing advance notice requirements for nominations of candidates for election to our Board of Directors or for proposing matters that can be acted upon by stockholders at stockholder meetings;
- requiring stockholder approval by holders of at least 80% of our voting power or the approval by at least 75% of our Board of Directors with respect to certain extraordinary matters, such as a merger or consolidation, a sale of all or substantially all of our assets or an amendment to our charter;
- requiring the consent of the holders of at least 75% of the outstanding Series B common stock (voting as a separate class) to certain share distributions and other corporate actions in which the voting power of the Series B common stock would be diluted by, for example, issuing shares having multiple votes per share as a dividend to holders of Series A common stock; and
- the existence of authorized and unissued stock which would allow our Board of Directors to issue shares to persons friendly to current management, thereby protecting the continuity of our management, or which could be used to dilute the stock ownership of persons seeking to obtain control of us.

We have also adopted a shareholder rights plan in order to encourage anyone seeking to acquire us to negotiate with our Board of Directors prior to attempting a takeover. While the plan is designed to guard against coercive or unfair tactics to gain control of us, the plan may have the effect of making more difficult or delaying any attempts by others to obtain control of us.
Holders of any single series of our common stock may not have any remedies if any action by our directors or officers has an adverse effect on only that series of common stock.
Principles of Delaware law and the provisions of our charter may protect decisions of our Board of Directors that have a disparate impact upon holders of any single series of our common stock. Under Delaware law, the Board of Directors has a duty to act with due care and in the best interests of all of our stockholders, including the holders of all series of our common stock. Principles of Delaware law established in cases involving differing treatment of multiple classes or series of stock provide that a board of directors owes an equal duty to all common stockholders regardless of class or series and does not have separate or additional duties to any group of stockholders. As a result, in some circumstances, our directors may be required to make a decision that is adverse to the holders of one series of common stock. Under the principles of Delaware law referred to above, stockholders may not be able to challenge these decisions if our Board of Directors is disinterested and adequately informed with respect to these decisions and acts in good faith and in the honest belief that it is acting in the best interests of all of our stockholders.

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

Advance/Newhouse has been granted registration rights covering all of the shares of common stock issuable upon conversion of the convertible preferred stock held by Advance/Newhouse. Advance/Newhouse's Series A-1 convertible preferred stock is currently convertible into nine shares of our Series A common stock and Advance/Newhouse's Series C-1 convertible preferred stock is convertible into 19.3648 shares of our Series C common stock, subject to certain anti-dilution adjustments. The registration rights, which are immediately exercisable, are transferable with the sale or transfer by Advance/Newhouse of blocks of shares representing 10% or more of the preferred stock it holds. The exercise of the registration rights, and subsequent sale of possibly large amounts of our common stock in the public market, could materially and adversely affect the market price of our common stock.

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

For corporate matters other than the election of directors, Mr. Malone and Advance/Newhouse each beneficially own shares of our stock representing approximately 21% and 24%, respectively, of the aggregate voting power represented by our outstanding stock. With respect to the election of directors, Mr. Malone controls approximately 28% of the aggregate voting power relating to the election of the eight common stock directors (assuming that the convertible preferred stock owned by Advance/Newhouse (the "A/N Preferred Stock") has not been converted into shares of our common stock). The A/N Preferred Stock carries with it the right to designate three preferred stock directors to our board (subject to certain conditions) but does not carry voting rights with respect to the election of the eight common stock directors. Also, under the terms of the A/N Preferred Stock, Advance/Newhouse has special voting rights as to certain enumerated matters, including material amendments to the restated charter and bylaws, fundamental changes in our business, mergers and other business combinations, certain acquisitions and dispositions and future issuances of capital stock. Although there is no stockholder agreement, voting agreement or any similar arrangement between Mr. Malone and Advance/Newhouse, by virtue of their respective holdings, Mr. Malone and Advance/Newhouse each have significant influence over the outcome of any corporate transaction or other matter submitted to our stockholders.

ITEM 1B. Unresolved Staff Comments.

None.

ITEM 2. Properties.

We own and lease approximately 3.93 million square feet of building space for the conduct of our businesses at 108 locations throughout the world, including properties acquired in connection with the Scripps Acquisition that comprise 1.53 million square feet and 39 locations. In the U.S. alone, we own and lease approximately 398,000 and 1.91 million square feet of building space, respectively, at 25 locations.

Principal locations in the U.S. include: (i) leased headquarters located at One Discovery Place, Silver Spring, Maryland, where approximately 543,000 square feet are used for corporate offices and general office space by our U.S. Networks and Other segments, (ii) 3 leased offices across New York, New York located at 850 3rd Avenue, 1180 6th Avenue and 75 9th Avenue where 481,000 square feet are collectively used primarily for sales by our U.S. Networks segment and creation of network television content by our U.S. Networks segment, as well as general office space, corporate offices, and certain executive offices, and a fourth office in New York, New York, where 362,000 square feet at 230 Park Avenue South are amidst planning for future occupancy as a global headquarters, (iii) 2 owned offices located at 9721 Sherrill Boulevard, Knoxville, Tennessee, where approximately 344,000 square feet are used for corporate offices, general office space and technology support space, (iv) leased general office space at 6505 Blue Lagoon Drive, Miami, Florida, where approximately 91,000 square feet are primarily used by our International Networks segment, (v) leased general office space located at 10100 Santa Monica Boulevard, Los Angeles, California, where approximately 64,000 square feet are primarily used by our U.S. Networks segment, and (vi) a leased origination facility at 45580 Terminal Drive, Sterling, Virginia, where approximately 54,000 square feet of space are used to manage the distribution of domestic network television content by our U.S. Networks segment.

We also own and lease approximately 299,000 and 1.32 million square feet of building space, respectively, at 83 locations outside of the U.S., including Poland, the U.K., France, Denmark, Norway, Italy, and Singapore. Included in the non-US office figures are approximately 138,000 square feet of building space used for office, production and post-production for Eurosport.

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

On January 9, 2018, we issued a press release announcing a new real estate strategy with plans to relocate the Company's global headquarters from Silver Spring, Maryland to New York City in 2019. During the third quarter of 2018, the Company entered into a short-term sale-leaseback transaction for its Silver Spring property, which terminates March 31, 2019.

ITEM 3. Legal Proceedings.

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

ITEM 4. Mine Safety Disclosures.

Not applicable.

Executive Officers of Discovery, Inc.
Pursuant to General Instruction G(3) to Form 10-K, the information regarding our executive officers required by Item 401(b) of Regulation S-K is hereby included in Part I of this report. The following table sets forth the name and date of birth of each of our executive officers and the office held by such officer as of March 1, 2019.

Name	Position
David M. Zaslav Born January 15, 1960	President, Chief Executive Officer and a common stock director. Mr. Zaslav has served as our President and Chief Executive Officer since January 2007 and a common stock director since September 2008. Mr. Zaslav served as President, Cable & Domestic Television and New Media Distribution of NBC Universal, Inc. ("NBC"), a media and entertainment company, from May 2006 to December 2006. Mr. Zaslav served as Executive Vice President of NBC, and President of NBC Cable, a division of NBC, from October 1999 to May 2006. Mr. Zaslav is a member of the board of Sirius XM Radio Inc., Grupo Televisa S.A.B and LionsGate Entertainment Corp.
Gunnar Wiedenfels Born September 6, 1977	Chief Financial Officer. Mr. Wiedenfels has served as our Chief Financial Officer since April 2017. Prior to joining Discovery, Mr. Wiedenfels served as Chief Financial Officer of ProSiebenSat.1 Media SE ("ProSieben") starting in 2015. Prior to that, he served as ProSieben's Deputy Chief Financial Officer from 2014 to 2015 and served as Chief Group Controller from 2013 to 2015. Previously, he served as ProSieben's Deputy Group Controller, responsible for group-wide budget planning, budget controlling, and management reporting and as Chief Financial Officer, National, where he had commercial responsibility for the group's German-speaking free TV segment. Before this, he worked as a management consultant and engagement manager at McKinsey & Company.
Jean-Briac Perrette Born April 30, 1971	President and CEO of Discovery Networks International. Mr. Perrette became CEO of Discovery Networks International in June 2016 and President of Discovery Networks International in March 2014. Prior to that, Mr. Perrette served as our Chief Digital Officer from October 2011 to February 2014. Mr. Perrette served in a number of roles at NBC Universal from March 2000 to October 2011, with the last being President of Digital and Affiliate Distribution.
Adria Alpert Romm Born March 2, 1955	Chief Human Resources and Global Diversity Officer. Ms. Romm has served as our Chief Human Resources and Global Diversity Officer since March 2014. Prior to that, Ms. Romm has served as our Senior Executive Vice President of Human Resources from March 2007 to February 2014. Ms. Romm served as Senior Vice President of Human Resources of NBC from 2004 to 2007. Prior to 2004, Ms. Romm served as a Vice President in Human Resources for the NBC TV network and NBC staff functions.
Bruce L. Campbell Born November 26, 1967	Chief Development, Distribution & Legal Officer. Mr. Campbell became our Chief Distribution Officer in October 2015, Chief Development Officer in August 2010 and served as our General Counsel from December 2010 to April 2017. Mr. Campbell served as Digital Media Officer from August 2014 through October 2015. Prior to that, Mr. Campbell served as our President, Digital Media & Corporate Development from March 2007 through August 2010. Mr. Campbell also served as our corporate secretary from December 2010 to February 2012. Mr. Campbell served as Executive Vice President, Business Development of NBC from December 2005 to March 2007, and Senior Vice President, Business Development of NBC from January 2003 to November 2005.
Peter Faricy	

Born September 7, 1966	Chief Executive Officer, Global Direct-To-Consumer. Mr. Faricy joined Discovery in September 2018. Prior to joining Discovery, Mr. Faricy served as Vice President of Amazon Marketplace and has over 20 years of leadership at the intersection of technology and media.
David Leavy Born December 24, 1969	Chief Corporate Operations and Communications Officer. Mr. Leavy became Chief Corporate Operations and Communications Officer in March 2016. Prior to that, Mr. Leavy served as our Chief Communications Officer and Senior Executive Vice President, Corporate Marketing and Business Operations from August 2015 to March 2016. From December 2011 to August 2015, Mr. Leavy served as our Chief Communications Officer and Senior Executive Vice President, Corporate Marketing and Affairs. Prior to that, Mr. Leavy served as our Executive Vice President, Communications and Corporate Affairs and has served in a number of other roles at Discovery since joining in March 2000.

Name	Position
Savalle C. Sims Born May 21, 1970	Executive Vice President and General Counsel. Ms. Sims became Executive Vice President and General Counsel in April 2017. Ms. Sims served as our Executive Vice President and Deputy General Counsel from December 2014 to April 2017. Prior to that, Ms. Sims served as our Senior Vice President, Litigation and Intellectual Property from August 2011 through December 2014. Prior to joining Discovery, Ms. Sims was a partner at the law firm of Arent Fox LLP.
Kurt T. Wehner Born June 30, 1962	Executive Vice President and Chief Accounting Officer. Mr. Wehner joined the Company in September 2011 and has served as our Executive Vice President, Chief Accounting Officer since November 2012. Mr. Wehner was an Audit Partner at KPMG LLP from 2000 to 2011.

PART II

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

Our Series A common stock, Series B common stock and Series C common stock are listed and traded on The Nasdaq Global Select Market (“NASDAQ”) under the symbols “DISCA,” “DISCB” and “DISCK,” respectively.

As of February 19, 2019, there were approximately 1,217, 68 and 1,816 record holders of our Series A common stock, Series B common stock and Series C common stock, respectively. These amounts do not include the number of shareholders whose shares are held of record by banks, brokerage houses or other institutions, but include each such institution as one shareholder.

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

Stock Performance Graph

The following graph sets forth the cumulative total shareholder return on our Series A common stock, Series B common stock and Series C common stock as compared with the cumulative total return of the companies listed in the Standard and Poor's 500 Stock Index ("S&P 500 Index") and a peer group of companies comprised of CBS Corporation Class B common stock, Scripps Network Interactive, Inc. (acquired by the Company in March 2018), Time Warner, Inc. (acquired by AT&T Inc. in June 2018), Twenty-First Century Fox, Inc. Class A common stock (News Corporation Class A Common Stock prior to June 2013), Viacom, Inc. Class B common stock and The Walt Disney Company. The graph assumes $100 originally invested on December 31, 2013 in each of our Series A common stock, Series B common stock and Series C common stock, the S&P 500 Index, and the stock of our peer group companies, including reinvestment of dividends, for the years ended December 31, 2014, 2015, 2016, 2017 and 2018. Two peer companies, Scripps Networks Interactive, Inc. and Time Warner, Inc., were acquired in 2018. The stock performance chart shows the peer group including Scripps Networks Interactive, Inc. and Time Warner, Inc. and excluding both acquired companies for the entire five year period.

	December 31, 2013	December 31, 2014	December 31, 2015	December 31, 2016	December 31, 2017	December 31, 2018
DISCA	$ 100.00	$ 74.58	$ 57.76	$ 59.34	$ 48.45	$ 53.56
DISCB	$ 100.00	$ 80.56	$ 58.82	$ 63.44	$ 53.97	$ 72.90
DISCK	$ 100.00	$ 80.42	$ 60.15	$ 63.87	$ 50.49	$ 55.04
S&P 500	$ 100.00	$ 111.39	$ 110.58	$ 121.13	$ 144.65	$ 135.63
Peer Group incl. Acquired Companies	$ 100.00	$ 116.64	$ 114.02	$ 127.96	$ 132.23	$ 105.80
Peer Group ex. Acquired Companies	$ 100.00	$ 113.23	$ 117.27	$ 120.58	$ 127.90	$ 141.58

Equity Compensation Plan Information

Information regarding securities authorized for issuance under equity compensation plans will be set forth in our definitive Proxy Statement for our 2019 Annual Meeting of Stockholders under the caption "Securities Authorized for Issuance Under Equity Compensation Plans," which is incorporated herein by reference.

ITEM 6. Selected Financial Data.

The table set forth below presents our selected financial information for each of the past five years (in millions, except per share amounts). The selected statement of operations information for each of the three years ended December 31, 2018 and the selected balance sheet information as of December 31, 2018 and 2017 have been derived from the audited consolidated financial statements included in Item 8, "Financial Statements and Supplementary Data," and should be read in conjunction with the information in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and other financial information included elsewhere in this Annual Report on Form 10-K. The selected statement of operations information for each of the two years ended December 31, 2015 and 2014 and the selected balance sheet information as of December 31, 2016, 2015 and 2014 have been derived from financial statements not included in this Annual Report on Form 10-K.

	2018	2017	2016	2015	2014
Selected Statement of Operations Information:					
Revenues	$10,553	$6,873	$6,497	$6,394	$6,265
Operating income	1,934	713	2,058	1,985	2,061
Net income (loss)	681	(313)	1,218	1,048	1,137
Net income (loss) available to Discovery, Inc.	594	(337)	1,194	1,034	1,139
Basic earnings per share available to Discovery, Inc. Series A, B and C common stockholders:					
Net income (loss)	0.86	(0.59)	1.97	1.59	1.67
Diluted earnings per share available to Discovery, Inc. Series A, B and C common stockholders:					
Net income (loss)	0.86	(0.59)	1.96	1.58	1.66
Weighted average shares outstanding:					
Basic	498	384	401	432	454
Diluted	688	576	610	656	687
Selected Balance Sheet Information:					
Cash and cash equivalents	$986	$7,309	$300	$390	$367
Total assets	32,550	22,555	15,672	15,864	16,014
Deferred income tax	1,811	319	467	556	588
Long-term debt:					
Current portion	1,860	30	82	119	1,107
Long-term portion	15,185	14,755	7,841	7,616	6,046
Total liabilities	22,033	17,532	10,262	10,172	9,663
Redeemable noncontrolling interests	415	413	243	241	747
Equity attributable to Discovery, Inc.	8,386	4,610	5,167	5,451	5,602
Total equity	$10,102	$4,610	$5,167	$5,451	$5,604

- On March 6, 2018, Discovery acquired Scripps Networks. Scripps Networks is a wholly-owned subsidiary whose total assets and total revenues represented approximately 55% and 29%, respectively, of the Company's related consolidated financial statement amounts as of and for the year ended December 31, 2018.
- On April 30, 2018, Discovery 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. (See Note 3 to the accompanying consolidated financial statements.) For the year ended December 31, 2018, Discovery has incurred transaction and integration costs for the Scripps Networks acquisition of $110 million.

- As of December 31, 2017, Discovery recognized a goodwill impairment charge totaling $1.3 billion for its European reporting unit. (See Note 8 to the accompanying consolidated financial statements.) On November 30, 2017, Discovery acquired a controlling interest in OWN from Harpo, increasing Discovery’s ownership stake from 49.50% to 73.99%. 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 interest. On September 25, 2017, Discovery acquired a 67.5% controlling interest in MTG (then known as VTEN), a new joint venture with GoldenTree, in exchange for its contribution of the Velocity network. On April 28, 2017, Discovery sold Raw and Betty to All3Media and recorded a loss of $4 million upon disposition. (See Note 3 to the accompanying consolidated financial statements.) For the year ended December 31, 2017, Discovery has incurred transaction and integration costs for the Scripps Networks acquisition of $79 million, including the $35 million charge associated with the modification of Advance/Newhouse's preferred stock. (See Note 12 to the accompanying consolidated financial statements.) In conjunction with the Scripps Networks acquisition, Discovery executed a number of new derivative instruments which were settled during September 2017 resulting in a $98 million and $12 million loss in connection with interest rate and foreign exchange contracts, respectively. (See Note 10 to the accompanying consolidated financial statements.)
- On September 30, 2016, Discovery recorded an other-than-temporary impairment of $62 million related to its investment in Lionsgate. On December 2, 2016, Discovery acquired a minority interest in and formed a new joint venture, Group Nine Media Inc. ("Group Nine Media"), in exchange for contributions of $100 million and Discovery's digital network businesses Seeker and SourceFed, resulting in a gain of $50 million upon deconsolidation of the businesses ("Group Nine Transaction"). As of December 31, 2018, Discovery owns a 42% minority interest in Group Nine Media on an outstanding shares basis with a carrying value of $212 million. (See Note 4 to the accompanying consolidated financial statements.)
- On October 7, 2015, Discovery recorded a loss of $5 million upon the deconsolidation of its Russian business following its contribution to a joint venture with a Russian media company, National Media Group (the "New Russian Business"). As part of the transaction, Discovery obtained a 20% ownership interest in the New Russian Business, which is accounted for under the equity method of accounting. On June 30, 2015, Discovery sold its radio businesses in Northern Europe to Bauer Media Group for total consideration, net of cash disposed of €72 million ($80 million). The cumulative gain on the disposal is $1 million. Based on the final resolution and receipt of contingent consideration payable, Discovery recorded a pre-tax gain of $13 million for the year ended December 31, 2016. Discovery had previously recorded a $12 million loss including estimated contingent consideration as disclosed for the year ended December 31, 2015.
- On September 23, 2014, we acquired an additional 10% ownership interest in Discovery Family. The purchase increased our ownership interest from 50% to 60%. As a result, the accounting for Discovery Family was changed from an equity method investment to a consolidated subsidiary. (See Note 3 to the accompanying consolidated financial statements.) On May 30, 2014, Discovery acquired a controlling interest in Eurosport International by increasing Discovery’s ownership stake from 20% to 51%. As a result, as of that date, the accounting for Eurosport was changed from an equity method investment to a consolidated subsidiary. On March 31, 2015, Discovery acquired a controlling interest in Eurosport France increasing Discovery's ownership stake by 31% upon the resolution of certain regulatory matters and began accounting for Eurosport France as a consolidated subsidiary. On October 1, 2015, Discovery acquired the remaining 49% of Eurosport for €491 million ($548 million) upon TF1's exercise of its right to put. (See Note 11 to the accompanying consolidated financial statements.)
- Balance sheet amounts for 2016, 2015 and 2014 have been adjusted to reclassify $86 million, $61 million, and $261 million, respectively, of deferred tax liabilities from current liabilities to non-current liabilities as a result of our adoption of ASU 2015-17. Additionally, balance sheet amounts for 2014 have been adjusted to reclassify $44 million of debt issuance costs from other noncurrent assets to noncurrent portion of debt as a result of our adoption of ASU 2015-03.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Management's discussion and analysis of financial condition and results of operations is a supplement to and should be read in conjunction with the accompanying consolidated financial statements and related notes. This section provides additional information regarding our businesses, current developments, results of operations, cash flows, financial condition, contractual commitments and critical accounting policies.

BUSINESS OVERVIEW

We are a global media company that provides content across multiple distribution platforms, including pay-TV, free to air ("FTA") and broadcast television, authenticated 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, ID, MotorTrend (previously known as Velocity and known as Turbo outside of the U.S.) and Eurosport, a leading sports entertainment pay-TV programmer across Europe and Asia. We operate production studios, and prior to the sale of our Education Business on April 30, 2018, we sold curriculum-based education products and services (See Note 3 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, DTH satellite operators, telecommunication service providers, and other content distributors, that deliver our content to their customers.

Our content spans genres including survival, exploration, sports, 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 networks and digital distribution arrangements, and International Networks, consisting primarily of international television networks and digital distribution arrangements. 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 3 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. For further discussion of our Company, segments in which we do business, and our content development activities and revenues, see our business overview set forth in Item 1, "Business" in this Annual Report on Form 10-K.

RESULTS OF OPERATIONS – 2018 vs. 2017

The discussion below compares our actual and pro forma combined results for the twelve months ended December 31, 2018 to the twelve months ended December 31, 2017, respectively, as if the OWN and MTG transactions and the acquisition of Scripps Networks (collectively, "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. This information has not been prepared in accordance with GAAP, is not intended to be a substitute for or superior to GAAP. Please see our consolidated financial statements included in this annual report on Form 10-K. 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 years ended December 31, 2018 and 2017 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 – 2018 vs. 2017

Our consolidated results of operations for 2018 and 2017 were as follows (in millions).

	Year Ended December 31,									
	2018			2017						
	Actual	Pro Forma Adjustments	Pro Forma Combined	Actual	Pro Forma Adjustments	Pro Forma Combined	Actual Change		Pro Forma Combined Change	
							$	%	$	%
Revenues:										
Distribution	$4,538	$ 178	$ 4,716	$3,474	$ 1,090	$ 4,564	$1,064	31 %	$152	3 %
Advertising	5,514	425	5,939	3,073	2,677	5,750	2,441	79 %	189	3 %
Other	501	20	521	326	150	476	175	54 %	45	9 %
Total revenues	10,553	623	11,176	6,873	3,917	10,790	3,680	54 %	386	4 %
Costs of revenues, excluding depreciation and amortization	3,935	205	4,140	2,656	1,391	4,047	1,279	48 %	93	2 %
Selling, general and administrative	2,620	132	2,752	1,768	946	2,714	852	48 %	38	1 %
Impairment of goodwill	—	—	—	1,327	—	1,327	(1,327)	NM	(1,327)	NM
Depreciation and amortization	1,398	(76)	1,322	330	1,241	1,571	1,068	NM	(249)	(16)%
Restructuring and other charges	750	10	760	75	—	75	675	NM	685	NM
(Gain) loss on disposition	(84)	—	(84)	4	—	4	(88)	NM	(88)	NM
Total costs and expenses	8,619	271	8,890	6,160	3,578	9,738	2,459	40 %	(848)	(9)%
Operating income	1,934	352	2,286	713	339	1,052	1,221	NM	1,234	NM
Interest expense, net	(729)			(475)			(254)	(53)%		
Loss on extinguishment of debt	—			(54)			54	NM		
Loss from equity investees, net	(63)			(211)			148	70 %		
Other expense, net	(120)			(110)			(10)	(9)%		
Income (loss) before income taxes	1,022			(137)			1,159	NM		
Income tax expense	(341)			(176)			(165)	(94)%		
Net income (loss)	681			(313)			994	NM		
Net income attributable to noncontrolling interests	(67)			—			(67)	NM		
Net income attributable to redeemable noncontrolling interests	(20)			(24)			4	17 %		

Net income (loss) available to Discovery, Inc.	$594	$(337)	$931	NM

NM - Not meaningful

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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 31%, primarily due to the impact of the Transactions. Excluding the impact of the Transactions and on a pro forma combined basis, excluding the impact of foreign currency fluctuations, distribution revenue increased 3%. Increases at International Networks were primarily driven by increases in subscribers to our linear networks and higher digital subscription revenues and increases in pricing in Europe and Latin America. Increases at U.S. Networks were principally attributable to an increase in contractual affiliate rates, which was partially offset by a decline in subscribers and, to a lesser extent, the timing of content deliveries under SVOD arrangements.

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 in 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 79%, primarily due to the impact of the Transactions. Excluding the impact of the Transactions and on a pro forma combined basis, excluding the impact of foreign currency fluctuations, advertising revenue increased 3%. The increases were due to continued monetization of our digital content offerings, an increase in pricing at U.S. Networks, and the Olympics.

Other revenue increased 54%, primarily due to the impact of the Transactions. Excluding the impact of the Transactions and on a pro forma combined basis, excluding the impact of foreign currency fluctuations, other revenue increased 8%. The increases were primarily due to sublicensing of Olympics sports rights to broadcast networks throughout Europe, partially offset by the Education and Other revenue that decreased 66% following the disposition of the Education Business on April 30, 2018. (See Note 3 to the accompanying consolidated financial statements.)

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

Costs of Revenues

Costs of revenues increased 48%, primarily due to the impact of the Transactions. 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 $2.9 billion and $1.9 billion for the years ended December 31, 2018 and 2017, respectively. Excluding the impact of the Transactions and foreign currency fluctuations, costs of revenue increased 5%. Excluding the impact of foreign currency fluctuations and on a pro forma combined basis, costs of revenues increased 2%. The increases were primarily due to spending on the Olympics at International Networks, partially offset by the impact of higher content impairment expenses recorded in the prior year at U.S. Networks and the impact of the disposition of the Education Business. On a pro forma combined basis and excluding the impacts of foreign currency fluctuations, content expense was $3.0 billion for each of the years ended December 31, 2018 and 2017. Content impairment is generally a component of costs of revenue on the consolidated statements of operations. However, during the year ended December 31, 2018, content impairments of $405 million were reflected as a component of restructuring and other charges as a result of the strategic programming changes following the acquisition of Scripps Networks. No content impairments were recorded as a component of restructuring and other charges during the year ended December 31, 2017.

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 48%, 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 6%, primarily due to increased marketing spend at International Networks, increased share-based compensation expense, charge-backs to an equity method investee in the prior year that is now consolidated, and increases in technology costs and tax advisory fees, partially offset by decreases at Education and Other following the disposition of the Education Business on April 30, 2018. Excluding the impact of foreign currency fluctuations and on a pro

forma combined basis, selling, general and administrative expenses were largely consistent with the prior year.
Impairment of Goodwill
No goodwill impairment expense was recorded during the year ended December 31, 2018. Goodwill impairment expense of $1.3 billion was recognized during the year ended December 31, 2017. (See Note 8 to the accompanying consolidated financial statements.)

Depreciation and Amortization

Depreciation and amortization expense includes depreciation of fixed assets and amortization of finite-lived intangible assets. Depreciation and amortization increased $1.1 billion, primarily due to the impact of the Transactions. On a pro forma combined basis, depreciation and amortization expense decreased $249 million, primarily due to pro forma amortization in 2017 related to the ad revenue backlog intangible, which had a one-year useful life and was fully amortized on a pro forma basis in 2017.

Restructuring and Other Charges

Restructuring and other charges increased $675 million, primarily as a result of content impairments associated with changes in programming strategies, involuntary severance actions associated with the integration of Scripps Networks, costs associated with the termination of long-term programming arrangements, and lease exit costs. (See Note 17 to the accompanying consolidated financial statements.) On a pro forma combined basis, restructuring and other charges increased $685 million. 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 content costs.

(Gain) Loss on Disposition

We recorded an $84 million gain during the year ended December 31, 2018 due to the sale of a controlling stake in the Education Business on April 30, 2018, compared with a loss of $4 million for the year ended December 31, 2017 due to the disposition of the Raw and Betty production studios. (See Note 3 to the accompanying consolidated financial statements.)

Interest Expense

Interest expense increased $254 million, primarily due to interest accrued on higher debt balances, including the senior notes issued on September 21, 2017 and term loans outstanding from March 6, 2018 through September 30, 2018. The senior notes and term loans were used to effect the acquisition of Scripps Networks. (See Note 9 to the accompanying consolidated financial statements.)

Loss on Extinguishment of Debt

On March 13, 2017, we issued new senior notes in an aggregate principal amount of $650 million and used the proceeds to fund the repurchase of $600 million of combined aggregate principal amount of our then-outstanding senior notes through a cash tender offer that closed on March 13, 2017. As a result, we recognized a $54 million loss on extinguishment of debt, which 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. (See Note 9 to the accompanying consolidated financial statements.)

Loss from equity investees, net

The loss from our equity method investees decreased $148 million for the year ended December 31, 2018, 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 and impairments of $29 million. (See Note 4 to the accompanying consolidated financial statements.)

Other Expense, Net

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

	Year Ended December 31,	
	2018	2017
Foreign currency losses, net	$(93)	$(83)
Gains (losses) on derivative instruments	50	(82)
Change in the value of common stock investments with readily determinable fair value	(88)	—
Remeasurement gain on previously held equity interest	—	33
Interest income	15	21
Other (expense) income, net	(4)	1
Total other income (expense), net	$(120)	$(110)

Total other expense, net increased $10 million in 2018 compared to 2017. During the year ended December 31, 2018 we recorded losses on common stock investments with readily determinable fair value due to the adoption of the recognition and measurement of financial instruments guidance on January 1, 2018, which requires us 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 increase in foreign currency losses for the year ended December 31, 2018 was mostly related to remeasurement of net monetary assets and transactions associated with the Polish Zloty, the Euro and other European currencies, partially offset by a reduction in losses associated with the British Pound. We recorded gains on derivative instruments for the year ended December 31, 2018 compared to losses for the year ended December 31, 2017, primarily due to losses of $98 million recorded during the prior year on interest rate contracts used to economically hedge the pricing for the issuance of a portion of the dollar-denominated senior notes on September 21, 2017 and, to a lesser extent, gains recorded in the current year on the equity collar used to mitigate the risk of market fluctuations with respect to 50% of the Lionsgate shares held by the Company and foreign currency swaps. (See Note 10 to the accompanying consolidated financial statements.) On November 30, 2017, the Company acquired from Harpo a controlling interest in OWN. We recognized a remeasurement gain of $33 million to account for the difference between the carrying value and the fair value of previously held 49.50% equity interest. (See Note 3 to the accompanying consolidated financial statements.)

Income Taxes

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

	Year Ended December 31,			
	2018		2017	
U.S. federal statutory income tax provision	$215	21 %	$(48)	35 %
State and local income taxes, net of federal tax benefit	10	1 %	23	(18)%
Effect of foreign operations	111	11 %	(35)	25 %
Domestic production activity deductions	—	— %	(52)	39 %
Change in uncertain tax positions	37	3 %	60	(44)%
Preferred stock modification	—	— %	12	(9)%
Goodwill impairment	—	— %	458	(334)%
Renewable energy investments tax credits (See Note 4)	(12)	(1)%	(195)	142 %
Noncontrolling interest adjustment	(18)	(2)%	—	— %
U.S. Legislative Changes	(19)	(2)%	(43)	32 %
Non-deductible compensation	20	2 %	—	— %
Other, net	(3)	— %	(4)	4 %
Income tax expense	$341	33 %	$176	(128)%

Income tax expense was $341 million and $176 million and our effective tax rate was 33% and (128)% for 2018 and 2017, respectively. During 2018, the increase in the income tax expense was primarily attributable to an increase in income, a reduction in benefits from investment tax credits from our renewable energy investments, the effect of foreign operations, which included the establishment of valuation allowances and write-offs of deferred tax assets, and elimination of the domestic production activity deduction, partially offset by the lower U.S. Federal statutory income tax rate, a decrease in expense for uncertain tax positions, and a tax benefit from TCJA rate change on the deferred tax liability recomputation as a result of U.S. legislative changes that extended the accelerated deduction of qualified film productions.

In connection with the acquisition of Scripps Networks, we recorded reserves in purchase accounting totaling $110 million for foreign tax matters claimed by tax authorities that are currently pending resolution. After the purchase accounting measurement period closes on March 5, 2019, any adjustment to these estimated amounts resulting from their resolution will affect net income in the period resolved.

Segment Results of Operations – 2018 vs. 2017

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 and deferred launch incentives 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 U.S. generally accepted accounting principles (“GAAP”).

Additional financial information for our segments and geographical areas in which we do business is discussed in Note 23 to the accompanying consolidated financial statements included in Item 8, “Financial Statements and Supplementary Data” in this Annual Report on Form 10-K.

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

	Year Ended December 31,		
	2018	2017	% Change
Net income (loss) available to Discovery, Inc.	$ 594	$ (337)	NM
Net income attributable to redeemable noncontrolling interests	20	24	(17)%
Net income attributable to noncontrolling interests	67	—	NM
Income tax expense	341	176	94 %
Income (loss) before income taxes	1,022	(137)	NM
Other expense, net	120	110	9 %
Loss from equity investees, net	63	211	(70)%
Loss on extinguishment of debt	—	54	NM
Interest expense, net	729	475	53 %
Operating income	1,934	713	NM
(Gain) loss on disposition	(84)	4	NM
Restructuring and other charges	750	75	NM
Depreciation and amortization	1,398	330	NM
Impairment of goodwill	—	1,327	NM
Mark-to-market share-based compensation	31	3	NM
Scripps Networks transaction and integration costs	110	79	39 %
Total Adjusted OIBDA	$ 4,139	$ 2,531	64 %
Adjusted OIBDA:			
U.S. Networks	3,500	2,026	73 %
International Networks	1,077	859	25 %
Education and Other	3	6	(50)%
Corporate and inter-segment eliminations	(441)	(360)	(23)%
Total Adjusted OIBDA	$ 4,139	$ 2,531	64 %

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

	Year Ended December 31,		
	2018	2017	% Change
Revenue:			
U.S. Networks	$ 6,350	$ 3,434	85 %
International Networks	4,149	3,281	26 %
Education and Other	54	158	(66)%
Corporate and inter-segment eliminations	—	—	— %
Total revenue	10,553	6,873	54 %
Costs of revenues, excluding depreciation and amortization	(3,935)	(2,656)	(48)%
Selling, general and administrative[(a)]	(2,479)	(1,686)	(47)%
Adjusted OIBDA	$ 4,139	$ 2,531	64 %

(a) Selling, general and administrative expenses exclude mark-to-market share-based compensation and Scripps Networks transaction and integration costs due to their impact on comparability between periods.

Effective January 1, 2019, our definition of Adjusted OIBDA was modified to exclude all share-based compensation, whereas only mark-to-market share-based compensation is excluded for each of the periods presented herein. During 2018, the Company began granting a higher percentage of equity classified awards (in lieu of liability classified awards, which require mark-to-market accounting) under its stock incentive plans, and expects to continue this action in future periods. Since most equity classified awards are non-cash expenses not entirely under management control, the Company has elected to exclude all share-based compensation from Adjusted OIBDA beginning in 2019. The revised definition of Adjusted OIBDA will be used by our chief operating decision maker in evaluating segment performance in 2019.

The following table presents Adjusted OIBDA as historically reported and under the revised definition:

Year Ended December 31, 2018	U.S. Networks	International Networks	Education and Other	Corporate and inter-segment eliminations	Total
Adjusted OIBDA, as reported	$ 3,500	$ 1,077	$ 3	$ (441)	$4,139
Deduct: Mark-to-market share-based compensation	(1)	—	—	32	31
Add: Total share-based compensation	(1)	—	—	81	80
Adjusted OIBDA, as revised	$ 3,500	$ 1,077	$ 3	$ (392)	$4,188
Year Ended December 31, 2017					
Adjusted OIBDA, as reported	$ 2,026	$ 859	$ 6	$ (360)	$2,531
Deduct: Mark-to-market share-based compensation	—	—	—	3	3
Add: Total share-based compensation	—	—	—	39	39
Adjusted OIBDA, as revised	$ 2,026	$ 859	$ 6	$ (324)	$2,567
Year Ended December 31, 2016					
Adjusted OIBDA, as reported	$ 1,922	$ 835	$ (10)	$ (334)	$2,413
Deduct: Mark-to-market share-based compensation	—	—	—	38	38
Add: Total share-based compensation	—	—	—	69	69
Adjusted OIBDA, as revised	$ 1,922	$ 835	$ (10)	$ (303)	$2,444

U.S. Networks

The table below presents, 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).

	Year Ended December 31,									
	2018			2017						
	Actual	Pro Forma Adjustments	Pro Forma Combined	Actual	Pro Forma Adjustments	Pro Forma Combined	Actual Change		Pro Forma Combined Change	
Revenues:							$	%	$	%
Distribution	$2,456	$ 156	$ 2,612	$1,612	$ 974	$ 2,586	$844	52 %	$26	1 %
Advertising	3,749	356	4,105	1,740	2,261	4,001	2,009	NM	104	3 %
Other	145	7	152	82	73	155	63	77 %	(3)	(2)%
Total revenues	6,350	519	6,869	3,434	3,308	6,742	2,916	85 %	127	2 %
Costs of revenues, excluding depreciation and amortization	(1,748)	(153)	(1,901)	(917)	(1,087)	(2,004)	(831)	(91)%	103	5 %
Selling, general and administrative	(1,102)	(111)	(1,213)	(491)	(758)	(1,249)	(611)	NM	36	3 %
Total Adjusted OIBDA	3,500	255	3,755	2,026	1,463	3,489	1,474	73 %	266	8 %
Mark-to-market share-based compensation	1	—	1	—	1	1	1	NM	—	— %
Depreciation and amortization	(985)	95	(890)	(35)	(1,132)	(1,167)	(950)	NM	277	24 %
Restructuring and other charges	(322)	(5)	(327)	(18)	—	(18)	(304)	NM	(309)	NM
Scripps Networks transaction and integration costs	(14)	—	(14)	—	—	—	(14)	NM	(14)	NM
Inter-segment eliminations	2	5	7	(12)	27	15	14	NM	(8)	(53)%
Operating income	$2,182	$ 350	$ 2,532	$1,961	$ 359	$ 2,320	$221	11 %	$212	9 %

Revenues

Distribution revenue increased 52%, primarily due to the impact of the Transactions. Excluding the impact of the Transactions and on a pro forma combined basis, distribution revenue increased 1% reflecting the impact of an increase in contractual affiliate rates, partially offset by a decline in subscribers and to a lesser extent, the timing of content deliveries under SVOD arrangements. On a pro forma combined basis, total portfolio subscribers for December 2018 were 4% lower than December 2017 and subscribers to our fully distributed networks were consistent with the prior year, due to additional carriage toward the end of the year, which offset the general trend of subscriber declines.

Advertising revenue increased $2.0 billion, primarily due to the impact of the Transactions. Excluding the impact of the Transactions and on a pro forma combined basis, advertising revenue increased 3%. The increases were due to the continued monetization of our digital content offerings and an increase in pricing, partially offset by the impact of audience declines on our linear networks.

Other revenue increased 77%, primarily due to the impact of the Transactions. Excluding the impact of the Transactions, other revenue decreased 27% due to lower program and merchandising sales. On a pro forma combined basis, other revenue in 2018 was largely consistent with 2017.

Costs of Revenues

Costs of revenues increased 91%, primarily due to the impact of the Transactions. Excluding the impact of the Transactions, costs of revenues decreased 4% and on a pro forma combined basis, costs of revenues decreased 5%. The decreases were primarily due to higher content impairment expenses recorded in costs of revenues in 2017. Content expense was $1.5 billion and $776 million for the years ended December 31, 2018 and 2017, respectively. Pro forma combined content expense was $1.6 billion and $1.7 billion for the years ended December 31, 2018 and

2017, respectively. Content impairment is generally a component of costs of revenue on the consolidated statements of operations. However, during the year ended December 31, 2018, content impairments of $221 million were reflected as a component of restructuring and other charges as a result of the strategic programming changes following the acquisition of Scripps Networks. No content impairments were recorded as a component of restructuring and other charges during the year ended December 31, 2017.

Selling, General and Administrative

Selling, general and administrative expenses increased $611 million in 2018 compared to 2017, primarily due to the impact of the Transactions. Excluding the impact of the Transactions, selling, general and administrative expenses increased 4% as expenses in the prior year were reduced by charge-backs to an equity method investee that is now consolidated. On a pro forma combined basis, selling, general and administrative expenses decreased 3%, primarily as a result of reductions in personnel costs due to restructuring.

Adjusted OIBDA

Adjusted OIBDA increased 73%, primarily due to the impact of the Transactions. Excluding the impact of the Transactions, Adjusted OIBDA increased 3% driven by an increase in revenues and decrease in costs of revenues, partially offset by an increase in selling, general and administrative expenses. On a pro forma combined basis, Adjusted OIBDA increased 8%, driven by an increase in revenues combined with decreases in costs of revenues and selling, general and administrative expenses.

International Networks

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

	Year Ended December 31,									
	2018			2017						
	Actual	Pro Forma Adjustments	Pro Forma Combined	Actual	Pro Forma Adjustments	Pro Forma Combined	Actual Change		Pro Forma Combined Change	
Revenues:							$	%	$	%
Distribution	$2,082	$ 22	$ 2,104	$1,862	$ 116	$ 1,978	$220	12 %	$126	6 %
Advertising	1,765	69	1,834	1,332	416	1,748	433	33 %	86	5 %
Other	302	13	315	87	77	164	215	NM	151	92 %
Total revenues	4,149	104	4,253	3,281	609	3,890	868	26 %	363	9 %
Costs of revenues, excluding depreciation and amortization	(2,169)	(52)	(2,221)	(1,677)	(304)	(1,981)	(492)	(29)%	(240)	(12)%
Selling, general and administrative	(903)	(27)	(930)	(745)	(150)	(895)	(158)	(21)%	(35)	(4)%
Total Adjusted OIBDA	1,077	25	1,102	859	155	1,014	218	25 %	88	9 %
Depreciation and amortization	(315)	(19)	(334)	(222)	(107)	(329)	(93)	(42)%	(5)	(2)%
Impairment of goodwill	—	—	—	(489)	—	(489)	489	NM	489	NM
Restructuring and other charges	(307)	(2)	(309)	(42)	—	(42)	(265)	NM	(267)	NM
Scripps Networks transaction and integration costs	(3)	—	(3)	—	—	—	(3)	NM	(3)	NM
Inter-segment eliminations	(18)	(4)	(22)	—	(27)	(27)	(18)	NM	5	19 %
Operating income	$434	$ —	$ 434	$106	$ 21	$ 127	$328	NM	$307	NM

Revenues

Distribution revenue increased 12%, mostly due to the impact of the acquisition of Scripps Networks. Excluding the impact of the acquisition of Scripps Networks and on a pro forma combined basis, excluding the impact of foreign currency fluctuations, distribution revenue increased 5%. The increases were primarily driven by increases in subscribers to our linear networks, higher digital subscription revenues in Europe and increases in pricing in Europe and Latin America.

Advertising revenue increased 33%, 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 increased 2%. The increase was primarily attributable to the Olympics. On a pro forma combined basis, excluding the impact of foreign currency fluctuations, advertising revenue increased 3%. The increase was primarily attributable to the Olympics and strength in certain European markets, and to a lesser extent continued monetization of our digital

distribution offerings, partially offset by linear viewership declines in Europe and Latin America.
Other revenue increased $215 million. Excluding the impact of the acquisition of Scripps Networks and foreign currency fluctuations, other revenue increased $153 million. On a pro forma combined basis, excluding the impact of foreign currency fluctuations, other revenue increased $147 million. The increases were primarily due to sublicensing of Olympics sports rights to broadcast networks throughout Europe during 2018.

Costs of Revenues

Costs of revenues increased 29%, mostly 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 12%. On a pro forma combined basis, excluding the impact of foreign currency fluctuations, costs of revenues increased 11%. The increases were primarily attributable to spending on the Olympics, partially offset by content synergies from the integration of Scripps Networks. Content rights expenses, excluding the impact of foreign currency fluctuations, was $1.4 billion and $1.2 billion for the years ended December 31, 2018 and 2017, respectively. On a pro forma combined basis, excluding the impact of foreign currency fluctuations, content rights expense was $1.4 billion and $1.3 billion for the years ended December 31, 2018 and 2017, respectively. Content impairment is generally a component of costs of revenue on the consolidated statements of operations. However, during the year ended December 31, 2018, content impairments of $184 million were reflected as a component of restructuring and other charges as a result of the strategic programming changes following the acquisition of Scripps Networks. No content impairments were recorded as a component of restructuring and other charges during the year ended December 31, 2017.

Selling, General and Administrative

Selling, general and administrative expenses increased 21%, 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 7%. On a pro forma combined basis, excluding the impact of foreign currency fluctuations, selling, general and administrative expenses increased 2%. The increases were due to increased marketing spend, particularly related to our digital distribution offerings. On a pro forma combined basis, the increase in costs was partially offset by cost savings from the integration of Scripps Networks.

Adjusted OIBDA

Adjusted OIBDA increased 25%, primarily due to the acquisition of Scripps Networks. Excluding the impact of the acquisition of Scripps Networks and foreign currency fluctuations, Adjusted OIBDA increased 2%. On a pro forma combined basis, excluding the impact of foreign currency fluctuations, Adjusted OIBDA increased 7%. The increases reflect the growth in revenues, which outpaced the increases in costs of revenues and selling, general and administrative expenses.

The impairment of goodwill reflected above for International Networks is a portion of the total goodwill impairment recorded for the European reporting unit during 2017. The remaining portion of the impairment of $838 million is a component of corporate and inter-segment eliminations. The presentation of goodwill impairment is consistent with the financial reports that are reviewed by the Company's CEO. Goodwill has been allocated from corporate assets to reporting units within the International Networks segment.

Education and Other

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

	Year Ended December 31,		
	2018	2017	% Change
Revenues	$ 54	$ 158	(66)%
Costs of revenues, excluding depreciation and amortization	(17)	(60)	72 %
Selling, general and administrative	(34)	(92)	63 %
Adjusted OIBDA	3	6	(50)%
Depreciation and amortization	(2)	(5)	60 %
Restructuring and other charges	(1)	(3)	67 %
Gain (loss) on disposition	85	(4)	NM
Inter-segment eliminations	12	12	NM
Operating income	$ 97	$ 6	NM

Subsequent to the sale of an 88% stake in the Education Business resulting in deconsolidation on April 30, 2018, Education and Other only includes activities associated with inter-company sales of productions for our U.S. Networks segment. Adjusted OIBDA decreased $3 million, primarily due to the sale of the Education Business.

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Corporate and Inter-segment Eliminations

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

	Year Ended December 31,									
	2018			2017			Actual Change		Pro Forma Combined Change	
	Actual	Pro Forma Adjustments	Pro Forma Combined	Actual	Pro Forma Adjustments	Pro Forma Combined	$	%	$	%
Costs of revenues, excluding depreciation and amortization	(1)	—	(1)	(2)	—	(2)	1	50 %	1	50 %
Selling, general and administrative	(440)	(21)	(461)	(358)	(98)	(456)	(82)	(23)%	(5)	(1)%
Adjusted OIBDA	(441)	(21)	(462)	(360)	(98)	(458)	(81)	(23)%	(4)	(1)%
Mark-to-market share-based compensation	(32)	(1)	(33)	(3)	(9)	(12)	(29)	NM	(21)	NM
Depreciation and amortization	(96)	—	(96)	(68)	(2)	(70)	(28)	(41)%	(26)	(37)%
Impairment of goodwill	—	—	—	(838)	—	(838)	838	NM	838	NM
Restructuring and other charges	(120)	(3)	(123)	(12)	—	(12)	(108)	NM	(111)	NM
Scripps Networks transaction and integration costs	(93)	28	(65)	(79)	68	(11)	(14)	(18)%	(54)	NM
Loss on disposition	(1)	—	(1)	—	—	—	(1)	NM	(1)	NM
Inter-segment eliminations	4	(1)	3	—	—	—	4	NM	3	NM
Operating loss	$(779)	$ 2	$ (777)	$(1,360)	$ (41)	$(1,401)	$581	43 %	$624	45 %

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.

The Adjusted OIBDA loss increased 23% in 2018 as compared to 2017. Excluding the impact of the Transactions and foreign currency fluctuations, the Adjusted OIBDA loss increased 16%, due to an increase in selling, general and administrative costs driven by increases in technology costs, tax advisory fees, and share-based compensation. Excluding the impact of foreign currency fluctuations and on a pro forma combined basis, the Adjusted OIBDA loss was largely consistent with the prior year as the aforementioned increases were offset by a reduction in personnel costs as a result of restructuring and the integration of Scripps Networks.

The impairment of goodwill presented above for corporate and inter-segment eliminations is a portion of the total goodwill impairment recorded for the European reporting unit during 2017. The remaining portion of the impairment of $489 million is a component of our International Networks segment. The presentation of goodwill impairment is consistent with the financial reports that are reviewed by the Company's CEO. Goodwill has been allocated from corporate assets to reporting units within corporate and inter-segment eliminations.

Items Impacting Comparability

From time to time certain items may impact the comparability of our consolidated results of operations between two periods. In comparing the financial results for the years 2018 and 2017, in addition to the Transactions, the Company has identified foreign currency as one such item, as noted below.

Foreign Currency

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

The ex-FX change represents the percentage change on a period-over-period basis adjusted for foreign currency impacts. The ex-FX change is calculated as the difference between the current year amounts translated at a baseline rate, which is 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 share-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):

Consolidated	Year Ended December 31,					
	2018	2017	% Change (Reported)		% Change (ex-FX)	
Revenues:						
Distribution	$4,538	$3,474	31	%	29	%
Advertising	5,514	3,073	79	%	78	%
Other	501	326	54	%	50	%
Total revenues	10,553	6,873	54	%	52	%
Costs of revenue, excluding depreciation and amortization	3,935	2,656	48	%	46	%
Selling, general and administrative expense	2,479	1,686	47	%	46	%
Adjusted OIBDA	$4,139	$2,531	64	%	62	%

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

International Networks	Year Ended December 31,					
	2018	2017	% Change (Reported)		% Change (ex-FX)	
Revenues:						
Distribution	$2,082	$1,862	12	%	10	%
Advertising	1,765	1,332	33	%	31	%
Other	302	87	NM		NM	
Total revenues	4,149	3,281	26	%	24	%
Costs of revenue, excluding depreciation and amortization	2,169	1,677	29	%	27	%
Selling, general and administrative expenses	903	745	21	%	20	%
Adjusted OIBDA	$1,077	$859	25	%	23	%

RESULTS OF OPERATIONS – 2017 vs. 2016

Consolidated Results of Operations – 2017 vs. 2016

Our consolidated results of operations for 2017 and 2016 were as follows (in millions).

	Year Ended December 31,		
	2017	2016	% Change
Revenues:			
Distribution	$ 3,474	$ 3,213	8 %
Advertising	3,073	2,970	3 %
Other	326	314	4 %
Total revenues	6,873	6,497	6 %
Costs of revenues, excluding depreciation and amortization	2,656	2,432	9 %
Selling, general and administrative	1,768	1,690	5 %
Impairment of goodwill	1,327	—	NM
Depreciation and amortization	330	322	2 %
Restructuring and other charges	75	58	29 %
Loss (gain) on disposition	4	(63)	NM
Total costs and expenses	6,160	4,439	39 %
Operating income	713	2,058	(65)%
Interest expense	(475)	(353)	35 %
Loss on extinguishment of debt	(54)	—	NM
Loss from equity method investees, net	(211)	(38)	NM
Other (expense) income, net	(110)	4	NM
(Loss) income before income taxes	(137)	1,671	NM
Income tax expense	(176)	(453)	(61)%
Net (loss) income	(313)	1,218	NM
Net income attributable to noncontrolling interests	—	(1)	NM
Net income attributable to redeemable noncontrolling interests	(24)	(23)	4 %
Net (loss) income available to Discovery, Inc.	$ (337)	$ 1,194	NM

NM - Not meaningful

Revenues

Distribution revenue increased 8% in 2017 compared to 2016. Excluding the impact of foreign currency fluctuations, distribution revenue increased 7%. U.S. Networks distribution revenue increases were driven by increases in affiliate fee rates and increases in SVOD revenue partially offset by a decline in affiliate subscribers. Total U.S. Networks portfolio subscribers declined 5% for the year ended December 31, 2017, while subscribers to our fully distributed networks declined 3% for the same period. International Networks' distribution revenue increase was mostly due to increases in contractual rates in Europe following further investment in sports content, and to a lesser extent increases in Latin America due to increases in rates offset by decreases in subscribers. Contributions from other distribution revenues also contributed slightly to growth. Other distribution revenues were comprised of content deliveries under licensing agreements. These increases were partially offset by decreases in contractual rates in Asia.

Advertising revenue increased 3% in 2017 compared to 2016. The increase for our U.S. Networks was primarily due to pricing increases and continued monetization of our GO platform, partially offset by lower audience delivery due to continued linear distribution audience universe declines. International Networks' increases were primarily due to increased volume across key markets in Europe, particularly Southern Europe and Germany, and Latin America. The increase was partially offset by declines in ad sales due to lower pricing and volume in Asia.

Other revenue increased 4% compared with the prior year, primarily due to the formation and consolidation of the MTG joint venture (then known as VTEN) during the third quarter of the current year. (See Note 3 to the accompanying consolidated financial statements.)

Costs of Revenues

Costs of revenues increased 9%. Excluding the impact of foreign currency fluctuations, OWN and MTG transactions and the Group Nine Transaction, costs of revenues increased 7% for the year ended December 31, 2017. The increase was primarily attributable to increased spending on content at our International Networks segment, particularly sports rights and associated production costs. Content amortization was $1.9 billion and $1.7 billion for the years ended December 31, 2017 and December 31, 2016, respectively.

Selling, General and Administrative

Selling, general and administrative expenses increased 5%. Excluding the impact of foreign currency fluctuations, OWN and MTG transactions, selling, general and administrative expenses increased 3% for the year ended December 31, 2017. The increase was primarily due to transaction costs for the Scripps Networks acquisition and integration costs of $79 million, including the $35 million charge associated with the modification of Advance/Newhouse's preferred stock. (See Note 12 to the accompanying consolidated financial statements.)

Impairment of Goodwill

Goodwill impairment expense of $1.3 billion was recognized during the year ended December 31, 2017. (See Note 8 to the accompanying consolidated financial statements.)

Depreciation and Amortization

Depreciation and amortization was consistent for the year ended December 31, 2017, compared with the prior period as capital spending has remained consistent over the periods.

Restructuring and Other Charges

Restructuring and other charges increased $17 million. The increase was primarily due to higher personnel-related termination costs for voluntary and involuntary severance actions. (See Note 17 to the accompanying consolidated financial statements.)

Loss (Gain) on Disposition

The change in loss (gain) on disposition was $67 million. We recorded a $4 million loss for the year ended December 31, 2017 due to the sale of the Raw and Betty production studios on April 28, 2017, compared with a gain of $63 million for the year ended December 31, 2016. The gain on disposition recorded for the year ended December 31, 2016 is comprised of the $50 million gain for the deconsolidation of our digital networks business Seeker and SourceFed Studios in connection with the Group Nine Transaction and the $13 million gain due to the disposition of our radio businesses in the Nordics. (See Note 3 to the accompanying consolidated financial statements.)

Interest Expense

Interest expense increased $122 million for the year ended December 31, 2017 primarily due to costs incurred for the unsecured bridge loan commitment as well as interest accrued on the senior notes issued on September 21, 2017 for the financing of the Scripps Networks acquisition. (See Note 9 to the accompanying consolidated financial statements.)

Loss on Extinguishment of Debt

On March 13, 2017, we issued new senior notes in an aggregate principal amount of $650 million and used the proceeds to fund the repurchase of $600 million of combined aggregate principal amount of our then-outstanding senior notes through a cash tender offer that closed on March 13, 2017. As a result, we recognized a $54 million loss on extinguishment of debt, which 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 the existing senior notes and $1 million accrued for other third-party fees. (See Note 9 to the accompanying consolidated financial statements.)

Loss from Equity Investees, net

Losses from our equity method investees increased $173 million primarily due to losses from investments in limited liability companies that sponsor renewable energy projects related to solar energy, partially offset by increases in earnings at OWN and decreases in losses at All3Media. (See Note 4 to the accompanying consolidated financial statements.)

Other (Expense) Income, Net

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

	Year Ended December 31,	
	2017	2016
Foreign currency (losses) gains, net	$(83)	$75
Losses on derivative instruments	(82)	(12)
Remeasurement gain on previously held equity interest	33	—
Interest income	21	—
Other-than-temporary impairment of AFS investments	—	(62)
Other income, net	1	3
Total other (expense) income, net	$(110)	$4

Other expense increased $114 million in 2017. We recorded foreign currency losses during 2017 compared to foreign currency gains during 2016, mostly due to exchange rate changes on the U.S. dollar compared with the British pound that impacted foreign currency monetary assets. Increases in losses from derivative instruments primarily resulted from losses of $98 million on interest rate contracts used to economically hedge the pricing for the issuance of a portion of the dollar-denominated senior notes, which were settled on September 21, 2017. The interest rate contracts did not receive hedging designation. The losses were partially offset by various other items, including a gain of $17 million on previously settled interest rate contracts for which the hedged issuance of debt is considered remote following the issuance of the senior notes on September 21, 2017. (See Note 9 and Note 10 to the accompanying consolidated financial statements.) On November 30, 2017, the Company acquired from Harpo a controlling interest in OWN. We recognized a remeasurement gain to account for the difference between the carrying value and the fair value of our previously held 49.50% equity interest. (See Note 3 to the accompanying consolidated financial statements.)

Income Taxes

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

	Year Ended December 31,			
	2017		2016	
U.S. federal statutory income tax provision	$(48)	35 %	$585	35 %
State and local income taxes, net of federal tax benefit	23	(18)%	(36)	(2)%
Effect of foreign operations	(35)	25 %	(17)	(1)%
Domestic production activity deductions	(52)	39 %	(62)	(4)%
Change in uncertain tax positions	60	(44)%	8	— %
Preferred stock modification	12	(9)%	—	— %
Goodwill impairment	458	(334)%	—	— %
Renewable energy investments tax credits (See Note 4)	(195)	142 %	(17)	(1)%
U.S. Legislative Changes	(43)	32 %	—	— %
Other, net	(4)	4 %	(8)	— %
Income tax expense	$176	(128)%	$453	27 %

Income tax expense was $176 million and $453 million and our effective tax rate was (128)% and 27% for 2017 and 2016, respectively. During 2017, the decrease in the effective tax rate was primarily attributable to the impact of non-cash goodwill impairment charges that are non-deductible for tax purposes. Thereafter, the decrease in the effective tax rate was primarily due to investment tax credits that we receive related to our renewable energy investments, and to a lesser extent, the domestic production activity deduction benefit, the allocation and taxation of income among multiple foreign and domestic jurisdictions, and the impact of the TCJA (see Note 18 to the accompanying consolidating financial statements). The benefits were partially offset by an increase in reserves for uncertain tax positions in 2017. In 2016, we favorably resolved multi-year state tax positions that resulted in a reduction of reserves related to uncertain tax positions that did not recur in 2017.

Segment Results of Operations – 2017 vs. 2016

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

	Year Ended December 31,		
	2017	2016	% Change
Revenues:			
U.S. Networks	$ 3,434	$ 3,285	5 %
International Networks	3,281	3,040	8 %
Education and Other	158	174	(9)%
Corporate and inter-segment eliminations	—	(2)	NM
Total revenues	6,873	6,497	6 %
Costs of revenues, excluding depreciation and amortization	(2,656)	(2,432)	9 %
Selling, general and administrative[(a)]	(1,686)	(1,652)	2 %
Adjusted OIBDA	$ 2,531	$ 2,413	5 %

[(a)]Selling, general and administrative expenses exclude mark-to-market share-based compensation, restructuring and other charges, gains (losses) on dispositions and third-party transaction costs directly related to the Scripps Networks acquisition and planned integration.

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

	Year Ended December 31,		
	2017	2016	% Change
Net (loss) income available to Discovery, Inc.	$ (337)	$ 1,194	(128)%
Net income attributable to redeemable noncontrolling interests	24	23	4 %
Net income attributable to noncontrolling interests	—	1	NM
Income tax expense	176	453	(61)%
Other expense (income), net	110	(4)	NM
Loss from equity investees, net	211	38	NM
Loss on extinguishment of debt	54	—	NM
Interest expense	475	353	35 %
Operating income	713	2,058	(65)%
Loss (gain) on disposition	4	(63)	NM
Restructuring and other charges	75	58	29 %
Depreciation and amortization	330	322	2 %
Impairment of goodwill	1,327	—	NM
Mark-to-market share-based compensation	3	38	NM
Scripps Networks transaction and integration costs	79	—	NM
Total Adjusted OIBDA	$ 2,531	$ 2,413	5 %
Adjusted OIBDA:			
U.S. Networks	$ 2,026	$ 1,922	5 %
International Networks	859	835	3 %
Education and Other	6	(10)	NM
Corporate and inter-segment eliminations	(360)	(334)	8 %
Total Adjusted OIBDA	$ 2,531	$ 2,413	5 %

U.S. Networks

The table below presents, 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).

	Year Ended December 31,		
	2017	2016	% Change
Revenues:			
Distribution	$ 1,612	$ 1,532	5 %
Advertising	1,740	1,690	3 %
Other	82	63	30 %
Total revenues	3,434	3,285	5 %
Costs of revenues, excluding depreciation and amortization	(917)	(891)	3 %
Selling, general and administrative	(491)	(472)	4 %
Adjusted OIBDA	2,026	1,922	5 %
Depreciation and amortization	(35)	(28)	25 %
Restructuring and other charges	(18)	(15)	20 %
Gain on dispositions	—	50	NM
Inter-segment eliminations	(12)	(14)	(14)%
Operating income	$ 1,961	$ 1,915	2 %

Revenues
Distribution revenues increased 5%. Excluding the impact of the OWN transaction, distribution revenues increased 4%, primarily driven by increases in affiliate fee rates and increases in SVOD revenue due to the timing of content deliveries. These increases were partially offset by a decline in affiliate subscribers. Total portfolio subscribers declined 5% for the year ended December 31, 2017, while subscribers to our fully distributed networks declined 3% for the same period.
Advertising revenue increased 3%. Excluding the impact of the OWN and MTG transactions and the Group Nine Transaction, advertising revenue increased 2% for the year ended December 31, 2017. The increase was primarily due to pricing increases and continued monetization of our GO platform, partially offset by lower audience delivery due to continued linear distribution audience universe declines.
Other revenue increased 30% primarily due to the formation and consolidation of the MTG joint venture (then known as VTEN) during the third quarter of the current year. (See Note 3 to the accompanying consolidated financial statements.)
Costs of Revenues
Costs of revenues increased 3% for the year ended December 31, 2017. Excluding the impact of OWN and MTG transactions and the Group Nine Transaction, costs of revenue increased 1%. Content amortization was $752 million and $716 million for 2017 and 2016, respectively.
Selling, General and Administrative
Selling, general and administrative expenses increased 4%. Excluding the impact of OWN and MTG transactions and the Group Nine Transaction, selling, general and administrative expenses increased 1% for the year ended December 31, 2017. Increased spending on viewer research was offset by decreases in personnel and marketing costs.
Adjusted OIBDA
Adjusted OIBDA increased 5% primarily due to increases in distribution and advertising revenues, partially offset by increases in costs of revenues. Excluding the impact of the OWN and MTG transactions and the Group Nine Transaction, adjusted OIBDA also increased 5%.
International Networks
The following table presents, for our International Networks segment, revenues by type, certain operating expenses, Adjusted OIBDA and a reconciliation of Adjusted OIBDA to operating income (in millions).

	Year Ended December 31,					
	2017		2016		% Change	
Revenues:						
Distribution	$ 1,862		$ 1,681		11	%
Advertising	1,332		1,279		4	%
Other	87		80		9	%
Total revenues	3,281		3,040		8	%
Costs of revenues, excluding depreciation and amortization	(1,677	)	(1,462	)	15	%
Selling, general and administrative	(745	)	(743	)	—	%
Adjusted OIBDA	859		835		3	%
Depreciation and amortization	(222	)	(221	)	—	%
Impairment of goodwill	(489	)	—		NM	
Restructuring and other charges	(42	)	(26			