Discovery Communications, Inc.
Form 10-Q
July 31, 2014

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

FORM 10-Q

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

For the quarterly period ended June 30, 2014

OR

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

For the transition period from to

Commission File Number: 001-34177

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

| | |
|---|---|
| Delaware<br>(State or other jurisdiction of incorporation or organization) | 35-2333914<br>(I.R.S. Employer Identification No.) |
| One Discovery Place<br>Silver Spring, Maryland<br>(Address of principal executive offices) | 20910<br>(Zip Code) |

(240) 662-2000
(Registrant’s telephone number, including area code)
Not Applicable
(Former name, former address and former fiscal year, if changed since last report.)

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

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

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

| | |
|---|---|
| Large accelerated filer ý | Accelerated filer ¨ |
| Non-accelerated filer o (Do not check if a smaller reporting company) | Smaller reporting company ¨ |

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

Total number of shares outstanding of each class of the Registrant’s common stock as of July 23, 2014:

| | |
|---|---|
| Series A Common Stock, par value $0.01 per share | 147,956,663 |
| Series B Common Stock, par value $0.01 per share | 6,542,457 |
| Series C Common Stock, par value $0.01 per share | 69,665,527 |

DISCOVERY COMMUNICATIONS, INC.
FORM 10-Q
TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION
ITEM 1. Financial Statements.
DISCOVERY COMMUNICATIONS, INC.
CONSOLIDATED BALANCE SHEETS
(unaudited; in millions, except par value)

| | June 30, 2014 | December 31, 2013 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $372 | $408 |
| Receivables, net | 1,525 | 1,371 |
| Content rights, net | 318 | 277 |
| Deferred income taxes | 81 | 73 |
| Prepaid expenses and other current assets | 275 | 281 |
| Total current assets | 2,571 | 2,410 |
| Noncurrent content rights, net | 1,935 | 1,883 |
| Property and equipment, net | 538 | 514 |
| Goodwill | 8,126 | 7,341 |
| Intangible assets, net | 1,924 | 1,565 |
| Equity method investments | 828 | 1,087 |
| Other noncurrent assets | 183 | 179 |
| Total assets | $16,105 | $14,979 |
| LIABILITIES AND EQUITY | | |
| Current liabilities: | | |
| Accounts payable | $226 | $141 |
| Accrued liabilities | 945 | 992 |
| Deferred revenues | 160 | 144 |
| Current portion of debt | 1,029 | 17 |
| Total current liabilities | 2,360 | 1,294 |
| Noncurrent portion of debt | 6,045 | 6,482 |
| Deferred income taxes | 769 | 637 |
| Other noncurrent liabilities | 299 | 333 |
| Total liabilities | 9,473 | 8,746 |
| Commitments and contingencies (Note 15) | | |
| Redeemable noncontrolling interests | 598 | 36 |
| Equity: | | |
| Discovery Communications, Inc. stockholders' equity: | | |
| Series A convertible preferred stock: $0.01 par value; 75 shares authorized; 71 shares issued | 1 | 1 |
| Series C convertible preferred stock: $0.01 par value; 75 shares authorized; 44 shares issued | 1 | 1 |
| Series A common stock: $0.01 par value; 1,700 shares authorized; 151 and 150 shares issued | 1 | 1 |
| Series B convertible common stock: $0.01 par value; 100 shares authorized; 7 shares issued | — | — |
| Series C common stock: $0.01 par value; 2,000 shares authorized; 151 shares issued | 2 | 2 |
| Additional paid-in capital | 6,865 | 6,826 |
| Treasury stock, at cost | (4,300) | (3,531) |
| Retained earnings | 3,499 | 2,892 |
| Accumulated other comprehensive (loss) income | (38) | 4 |

| | | |
|---|---|---|
| Total Discovery Communications, Inc. stockholders’ equity | 6,031 | 6,196 |
| Noncontrolling interests | 3 | 1 |
| Total equity | 6,034 | 6,197 |
| Total liabilities and equity | $16,105 | $14,979 |

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

4

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Revenues: | | | | |
| Distribution | $692 | $662 | $1,349 | $1,245 |
| Advertising | 844 | 749 | 1,533 | 1,257 |
| Other | 74 | 56 | 139 | 121 |
| Total revenues | 1,610 | 1,467 | 3,021 | 2,623 |
| Costs and expenses: | | | | |
| Costs of revenues, excluding depreciation and amortization | 515 | 437 | 997 | 779 |
| Selling, general and administrative | 406 | 394 | 815 | 759 |
| Depreciation and amortization | 75 | 78 | 158 | 110 |
| Restructuring charges | 5 | 9 | 8 | 10 |
| Gain on disposition | (31) | — | (31) | — |
| Total costs and expenses | 970 | 918 | 1,947 | 1,658 |
| Operating income | 640 | 549 | 1,074 | 965 |
| Interest expense | (83) | (80) | (164) | (148) |
| Income (loss) from equity investees, net | 8 | (7) | 21 | (9) |
| Other income, net | 27 | 19 | 10 | 50 |
| Income from continuing operations before income taxes | 592 | 481 | 941 | 858 |
| Provision for income taxes | (208) | (181) | (326) | (327) |
| Net income | 384 | 300 | 615 | 531 |
| Net income attributable to noncontrolling interests | (2) | — | (2) | — |
| Net income attributable to redeemable noncontrolling interests | (3) | — | (4) | — |
| Net income available to Discovery Communications, Inc. | $379 | $300 | $609 | $531 |
| | | | | |
| Net income per share available to Discovery Communications, Inc. stockholders: | | | | |
| Basic | $1.10 | $0.83 | $1.75 | $1.47 |
| Diluted | $1.09 | $0.82 | $1.74 | $1.45 |
| Weighted average shares outstanding: | | | | |
| Basic | 343 | 359 | 346 | 361 |
| Diluted | 346 | 363 | 349 | 365 |

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

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Net income | $384 | $300 | $615 | $531 |
| Other comprehensive (loss) income, net of tax: | | | | |
| Currency translation adjustments | (33) | (48) | (32) | (107) |
| Derivative and market value adjustments | (8) | 2 | (9) | 6 |
| Comprehensive income | 343 | 254 | 574 | 430 |
| Comprehensive income attributable to noncontrolling interests | (2) | — | (2) | — |
| Comprehensive (income) loss attributable to redeemable noncontrolling interests | (4) | 1 | (5) | 1 |
| Comprehensive income attributable to Discovery Communications, Inc. | $337 | $255 | $567 | $431 |

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

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

| | Six Months Ended June 30, | |
|---|---|---|
| | 2014 | 2013 |
| Operating Activities | | |
| Net income | $615 | $531 |
| Adjustments to reconcile net income to cash provided by operating activities: | | |
| Equity-based compensation expense | 33 | 84 |
| Depreciation and amortization | 158 | 110 |
| Content amortization and impairment expense | 705 | 542 |
| Gain on disposition | (31) | — |
| Remeasurement gain on previously held equity interest | (29) | (92) |
| Equity in (earnings) losses of investee companies, net of cash distributions | (7) | 13 |
| Deferred income tax (benefit) expense | (73) | 139 |
| Launch amortization expense | 4 | 10 |
| Loss from hedging instruments, net | — | 55 |
| Other, net | 18 | 18 |
| Changes in operating assets and liabilities: | | |
| Receivables, net | (46) | (90) |
| Content rights | (806) | (680) |
| Accounts payable and accrued liabilities | (12) | (83) |
| Equity-based compensation liabilities | (81) | (61) |
| Income tax receivable | 54 | 9 |
| Other, net | (29) | (35) |
| Cash provided by operating activities | 473 | 470 |
| Investing Activities | | |
| Purchases of property and equipment | (58) | (54) |
| Business acquisitions, net of cash acquired | (321) | (1,832) |
| Hedging instruments, net | — | (55) |
| Proceeds from disposition | 45 | — |
| Distributions from equity method investees | 41 | 4 |
| Investments in equity method investees, net | (9) | (26) |
| Other investing activities, net | (1) | (1) |
| Cash used in investing activities | (303) | (1,964) |
| Financing Activities | | |
| Borrowings from debt, net of discount and issuance costs | 409 | 1,186 |
| Commercial paper, net | 162 | — |
| Principal repayments of capital lease obligations | (9) | (17) |
| Repurchases of common stock | (769) | (265) |
| Repurchases of preferred stock | — | (256) |
| Cash proceeds from equity-based plans, net | 13 | 35 |
| Other financing activities, net | (7) | (3) |
| Cash (used in) provided by financing activities | (201) | 680 |
| Effect of exchange rate changes on cash and cash equivalents | (5) | (12) |
| Net change in cash and cash equivalents | (36) | (826) |
| Cash and cash equivalents, beginning of period | 408 | 1,201 |
| Cash and cash equivalents, end of period | $372 | $375 |

7

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

| | Six Months Ended June 30, | |
|---|---|---|
| | 2014 | 2013 |
| Supplemental Cash Flow Information | | |
| Cash paid for taxes, net | $(268) | $(149) |
| Cash paid for interest, net | $(163) | $(142) |
| Noncash Investing and Financing Transactions | | |
| Assets acquired under capital lease arrangements | $15 | $54 |
| Accrued purchases of property and equipment | $4 | $6 |

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

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

| | Three Months Ended June 30, 2014 | | | Three Months Ended June 30, 2013 | | |
|---|---|---|---|---|---|---|
| | Discovery Stockholders | Noncontrolling Interests | Total Equity | Discovery Stockholders | Noncontrolling Interests | Total Equity |
| Beginning balance | $6,180 | $ 1 | $6,181 | $6,240 | $ 2 | $6,242 |
| Comprehensive income | 337 | 2 | 339 | 255 | — | 255 |
| Equity-based compensation | 7 | — | 7 | 14 | — | 14 |
| Issuance of common stock for equity-based plans | 9 | — | 9 | 15 | — | 15 |
| Excess tax benefits from equity-based compensation | 5 | — | 5 | 13 | — | 13 |
| Tax settlements associated with equity-based compensation | (1) | — | (1) | — | — | — |
| Repurchases of common stock | (503) | — | (503) | (265) | — | (265) |
| Stock dividends declared to preferred interests | (1) | — | (1) | — | — | — |
| Redeemable noncontrolling interest adjustments to redemption value | (2) | — | (2) | (3) | — | (3) |
| Noncontrolling interests of acquired businesses | — | — | — | — | 2 | 2 |
| Ending balance | $6,031 | $ 3 | $6,034 | $6,269 | $ 4 | $6,273 |

| | Six Months Ended June 30, 2014 | | | Six Months Ended June 30, 2013 | | |
|---|---|---|---|---|---|---|
| | Discovery Stockholders | Noncontrolling Interests | Total Equity | Discovery Stockholders | Noncontrolling Interests | Total Equity |
| Beginning balance | $6,196 | $ 1 | $6,197 | $6,291 | $ 2 | $6,293 |
| Comprehensive income | 567 | 2 | 569 | 431 | — | 431 |
| Equity-based compensation | 27 | — | 27 | 34 | — | 34 |
| Issuance of common stock for equity-based plans | 19 | — | 19 | 31 | — | 31 |
| Excess tax benefits from equity-based compensation | 21 | — | 21 | 26 | — | 26 |
| Tax settlements associated with equity-based compensation | (27) | — | (27) | (22) | — | (22) |
| Other adjustments for equity-based plans | (1) | — | (1) | — | — | — |
| Repurchases of common stock | (769) | — | (769) | (265) | — | (265) |
| Repurchases of preferred stock | — | — | — | (256) | — | (256) |
| | (1) | — | (1) | — | — | — |

| | | | | | | |
|---|---|---|---|---|---|---|
| Stock dividends declared to preferred interests | | | | | | |
| Redeemable noncontrolling interest adjustments to redemption value | (1 ) | — | (1 ) | (1 ) | — | (1 ) |
| Noncontrolling interests of acquired businesses | — | — | — | — | 2 | 2 |
| Ending balance | $6,031 | $ 3 | $6,034 | $6,269 | $ 4 | $6,273 |

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

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

## NOTE 1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

### Description of Business

Discovery Communications, Inc. (“Discovery” or the “Company”) is a global media company that provides content across multiple distribution platforms, including television networks, digital distribution arrangements and a portfolio of web-native networks. The Company also develops and sells curriculum-based education products and services. The Company classifies its operations in three segments: U.S. Networks, consisting principally of domestic television networks and websites; International Networks, consisting principally of international television networks, radio stations and websites; and Education, consisting of educational curriculum-based product and service offerings. Financial information for Discovery’s reportable segments is discussed in Note 16.

### Basis of Presentation

The consolidated financial statements include the accounts of Discovery and its majority-owned subsidiaries in which a controlling interest is maintained. Inter-company accounts and transactions between consolidated entities have been eliminated in consolidation.

### Reclassifications

Transactions denominated in currencies other than subsidiaries' functional currencies are recorded based on exchange rates at the time such transactions arise. Changes in exchange rates with respect to amounts recorded in the consolidated balance sheets related to these items will result in unrealized foreign currency transaction gains and losses based upon period-end exchange rates. The Company also records realized foreign currency transaction gains and losses upon settlement of foreign currency transactions. Beginning January 1, 2014, the Company reclassified foreign currency (losses) gains, net as described above from selling, general and administrative expense to other income, net on the consolidated statements of operations for all periods presented. For the three and six months ended June 30, 2013, foreign currency gains of $15 million and $13 million, respectively, were reclassified from selling, general and administrative expense to other income, net to conform to the current year presentation.

### Unaudited Interim Financial Statements

These consolidated financial statements are unaudited; however, in the opinion of management, they reflect all adjustments consisting only of normal recurring adjustments necessary to state fairly the financial position, results of operations and cash flows for the periods presented in conformity with U.S. generally accepted accounting principles (“GAAP”) applicable to interim periods. The results of operations for the interim periods presented are not necessarily indicative of results for the full year or future periods. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in Discovery’s Annual Report on Form 10-K for the year ended December 31, 2013 (the “2013 Form 10-K”).

### Use of Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates, judgments and assumptions that affect the amounts and disclosures reported in the consolidated financial statements and accompanying notes. Management continually re-evaluates its estimates, judgments and assumptions, and management’s assessments could change. Actual results may differ materially from those estimates.

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

### Accounting and Reporting Pronouncements Adopted

#### Presentation of Unrecognized Tax Benefits

In July 2013, the Financial Accounting Standards Board ("FASB") issued guidance stating that a liability related to an unrecognized tax benefit should be presented as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carry forward to the extent such deferred tax asset is available at the reporting date to settle any

10

additional income taxes that would result from the disallowance of a tax position. The Company prospectively adopted the new guidance effective January 1, 2014. Liabilities of $11 million related to unrecognized tax benefits are reducing deferred tax assets that are reflected in net noncurrent deferred income tax liabilities on the consolidated balance sheet as of June 30, 2014.

Accounting and Reporting Pronouncements Not Yet Adopted

Reporting Discontinued Operations

In April 2014, the FASB issued guidance that changes the criteria for reporting a discontinued operation. Under the new pronouncement, disposal of a component of an entity representing a strategic shift with major effect on its operations and financial results is a discontinued operation. The Company is required to adopt the guidance prospectively for all disposals or components of its business classified as held for sale during fiscal periods beginning after December 15, 2014. The Company will assess future dispositions under the new guidance.

Revenue from Contracts with Customers

In May 2014, the FASB issued an accounting pronouncement related to revenue recognition, which applies a single, comprehensive revenue recognition model for all contracts with customers. This standard contains principles with respect to the measurement of revenue and timing of recognition. The Company will recognize revenue to reflect the transfer of goods or services to customers at an amount that it expects to be entitled to receive in exchange for those goods or services. This pronouncement is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. Early adoption is not permitted. The Company is currently evaluating the impact that the pronouncement will have on the consolidated financial statements.

Concentrations Risk

Customers

The Company has long-term contracts with distributors around the world, including the largest distributors in the U.S. and major international distributors. In the U.S., approximately 90% of distribution revenues come from the top 10 distributors. Outside of the U.S., approximately 50% of distribution revenue comes from the top 10 distributors. Agreements in place with the major cable and satellite operators in the U.S. expire at various times beginning in 2014 through 2020. Failure to secure a renewal or a renewal on less favorable terms may have a material adverse effect on the Company’s financial condition and results of operations. Not only could the Company experience a reduction in affiliate revenue, but it could also experience a reduction in advertising revenue which is impacted by affiliate subscriber levels and viewership.

No individual customer accounted for more than 10% of total consolidated revenues for the three and six months ended June 30, 2014 or 2013. As of June 30, 2014 and December 31, 2013, the Company’s trade receivables do not represent a significant concentration of credit risk as the customers and markets in which the Company operates are varied and dispersed across many geographic areas.

Financial Institutions

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

Lender Counterparties

There is a risk that the counterparties associated with the Company’s revolving credit facility will not be available to fund as obligated under the terms of the facility. If funding under the revolving credit facility is unavailable, the Company may have to acquire a replacement credit facility from different counterparties at a higher cost or may be unable to find a suitable replacement and may have limited or no access to the commercial paper market. Typically, the Company seeks to manage these exposures by contracting with experienced large financial institutions and monitoring the credit quality of its lenders. As of June 30, 2014, the Company did not anticipate nonperformance by any of its counterparties.

NOTE 2. ACQUISITIONS AND DISPOSITIONS
Acquisitions
Eurosport
On May 30, 2014, the Company acquired from TF1 a controlling interest in and began consolidating Eurosport International ("Eurosport"), a leading pan-European sports media platform, by increasing Discovery’s ownership stake from 20% to 51% for cash of approximately €257 million ($349 million) and recognized a gain of $29 million to account for the difference between the carrying value and the fair value of the previously held 20% equity interest. The gain is included in other income, net in the Company's consolidated statements of operations (see Note 13). Due to regulatory constraints, the acquisition initially excludes Eurosport France, formerly a subsidiary of Eurosport. The Company will retain a 20% equity interest in Eurosport France and has a commitment to acquire another 31% ownership interest beginning in 2015 for approximately €35 million ($48 million), contingent upon resolution of all regulatory matters. The flagship Eurosport network focuses on regionally popular sports, such as tennis, skiing, cycling and motor sports. Eurosport’s brands and platforms also include Eurosport HD (high definition simulcast), Eurosport 2, Eurosport 2 HD (high definition simulcast), Eurosport Asia-Pacific, and Eurosportnews. The acquisition is intended to increase the growth of Eurosport and enhance the Company's pay television offerings in Europe.
The Company used discounted cash flow ("DCF") analyses, which represent Level 3 fair value measurements, to preliminarily assess the fair value of the assets acquired, liabilities assumed and noncontrolling interest and to calculate the remeasurement gain on previously held equity interest as presented in the table below (in millions).

| | May 30, 2014 |
|---|---|
| Goodwill | $775 |
| Intangible assets | 467 |
| Other assets acquired | 165 |
| Cash | 47 |
| Remeasurement gain on previously held equity interest | (29) |
| Liabilities assumed | (154) |
| Deferred tax liabilities | (167) |
| Redeemable noncontrolling interest | (558) |
| Carrying value of previously held equity interest | (197) |
| Net assets acquired | $349 |

TF1 has the right to put the entirety of its remaining 49% non-controlling interest to the Company during two 90-day windows for two and a half years after May 30, 2014. If the put right is exercised during the first 90-day window beginning July 1, 2015, it has a floor value equal to the fair value per share of Eurosport on May 30, 2014. If the put right is exercised during the second 90-day window beginning July 1, 2016, it will be priced at the then-current fair value per share of Eurosport, or as may be agreed between the Company and TF1. As TF1's put right is outside the control of the Company, TF1's 49% noncontrolling interest is presented as redeemable noncontrolling interest outside of permanent equity on the Company's consolidated balance sheet (see Note 8).
The goodwill reflects the workforce, synergies and increased pan-European market penetration expected from combining the operations of Eurosport and the Company as a component of the Company's international networks segment. The Company continues to evaluate the reporting unit determination for this acquisition. The goodwill recorded as part of this acquisition is not amortizable for tax purposes. Intangible assets primarily consist of distribution and advertising customer relationships, advertiser backlog and trademarks with a weighted average estimated useful life of 10 years. The purchase price allocation presented above is preliminary as the Company is currently in the process of completing fair value estimates for intangible assets, certain liabilities and income taxes.
SBS Nordic

On April 9, 2013, the Company acquired the general entertainment television and radio business operations ("SBS Nordic") of Prosiebensat.1 Media AG for cash of approximately €1.4 billion ($1.8 billion) including closing purchase price adjustments. SBS Nordic has operations in Sweden, Norway, Denmark, Finland and England. The acquisition of SBS Nordic supports the Company’s strategic priority of increasing its presence in key international markets and is a component of the Company's International Networks segment.

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

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

| | April 9, 2013 |
|---|---|
| Goodwill | $779 |
| Intangible assets | 1,001 |
| Content | 248 |
| Other assets acquired | 212 |
| Cash | 106 |
| Liabilities assumed | (278) |
| Deferred tax liabilities | (243) |
| Redeemable noncontrolling interest | (6) |
| Net assets acquired | $1,819 |

The goodwill reflects the workforce, synergies and increased Nordic region market penetration expected from combining the operations of SBS Nordic and the Company. The goodwill recorded as part of this acquisition is not amortizable for tax purposes. Intangible assets primarily consist of broadcast licenses, distribution and advertising customer relationships, advertiser backlog and trademarks with a weighted average estimated useful life of 8 years.

Discovery Japan

On January 10, 2013, the Company purchased an additional 30% of Discovery Japan for $53 million. Discovery Japan operates Discovery Channel and Animal Planet in Japan. As of December 31, 2012, Discovery and Jupiter Telecommunications Co., Ltd ("J:COM") each owned a 50% interest in Discovery Japan, and Discovery accounted for its 50% interest using the equity method of accounting. Discovery consolidated Discovery Japan on January 10, 2013 and recognized a gain of $92 million to account for the difference between the carrying value and the fair value of the previously held 50% equity interest. The gain is included in other income, net in the Company's consolidated statements of operations (see Note 13).

The Company used a combination of a DCF analysis and market-based valuation methodologies, which represent Level 3 fair value measurements, to measure the fair value of Discovery Japan and to perform its purchase price allocation. The table below presents the allocation of the purchase price to the assets and liabilities acquired and calculation of a remeasurement gain on previously held equity interest (in millions).

| | January 10, 2013 |
|---|---|
| Goodwill | $103 |
| Intangible assets | 100 |
| Other assets acquired | 25 |
| Currency translation adjustment | 6 |
| Cash | 4 |
| Remeasurement gain on previously held equity interest | (92) |
| Liabilities assumed | (55) |
| Redeemable noncontrolling interest | (35) |
| Carrying value of previously held equity interest | (3) |
| Net assets acquired | $53 |

The terms of the agreement provide J:COM with a right to put its 20% noncontrolling interest to Discovery for cash at any time and Discovery with the right to call J:COM's 20% noncontrolling interest beginning in January 2018. As J:COM's put right is outside the control of the Company, J:COM's 20% noncontrolling interest is presented as redeemable noncontrolling interest outside of permanent equity on the Company's consolidated balance sheet (see

Note 8).

The goodwill reflects the synergies and increased regional flexibility expected from controlling the operations of Discovery Japan and is included in the International Networks segment. The goodwill recorded as part of this acquisition is not amortizable for tax purposes. Intangible assets are primarily distribution customer relationships.

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

Other

On February 28, 2014, the Company acquired a factual entertainment production company in the U.K. for total consideration of £12 million ($20 million), including accrued purchase liabilities and net of cash acquired. The acquisition helps to strengthen the Company's content sourcing capabilities. As part of the acquisition, the Company recognized $28 million of goodwill.

In 2013, the Company acquired several other unrelated businesses for total consideration of $88 million, net of cash acquired. The Company recorded $67 million and $24 million of goodwill and intangible assets, respectively, in connection with these acquisitions. The acquisitions included a television station in Sweden and an education business in the U.K. The goodwill reflects the synergies and market expansion expected from combining the operations of these acquisitions with the Company.

Pro Forma Financial Information

The following table presents the unaudited pro forma results of the Company as though all the business combinations discussed above had been made on January 1, 2013 (in millions). These pro forma results do not necessarily represent what would have occurred if all the business combinations above had taken place on January 1, 2013, nor do they represent the results that may occur in the future. These pro formas include the historical financial statement amounts of Discovery and its business combinations with the following adjustments: the Company converted the historical financial statements of its acquirees to GAAP, applied the Company's accounting policies, and the Company adjusted for amortization expense assuming the fair value adjustments to intangible assets had been applied beginning January 1, 2013 and removed the gain of $29 million recognized upon the consolidation of Eurosport and reclassified it to 2013. The pro forma adjustments were based on available information and upon assumptions that the Company believes are reasonable to reflect the impact of these acquisitions on the Company's historical financial information on a supplemental pro forma basis.

| | Pro forma Three Months Ended June 30, | | Pro forma Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Revenue | $1,702 | $1,632 | $3,242 | $3,106 |
| Net income | 368 | 311 | 620 | 541 |

Consolidation of Business Combinations

The operations of each of the business combinations discussed above were included in the consolidated financial statements as of each of their respective acquisition dates. The following table presents the revenue and earnings of the businesses acquired as reported within the consolidated financial statements for the three and six months ended June 30, 2014 and 2013 (in millions).

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Revenues: | | | | |
| Distribution | $89 | $54 | $148 | $68 |
| Advertising | 193 | 138 | 336 | 140 |
| Other | 21 | 5 | 33 | 5 |
| Total revenues | 303 | 197 | 517 | 213 |
| Net income | $51 | $19 | $18 | $25 |

Equity Method Investment

On May 8, 2014, the Company signed an arrangement to acquire 50% of All3Media, a production company, for a cash payment of approximately £90 million ($153 million). The transaction is expected to close in September 2014.

Disposition

HSW

On May 30, 2014, Discovery sold HowStuffWorks, LLC, a commercial website which uses various media to explain complex concepts, terminology and mechanisms, to Blucora, Inc. (“Blucora”). Blucora paid Discovery $45 million, and Discovery recorded a pretax gain of $31 million upon completion of the sale. HowStuffWorks, LLC was part of the U.S. Networks operating segment.

NOTE 3. VARIABLE INTEREST ENTITIES

In the normal course of business, the Company makes investments that support its underlying business strategy and enable it to enter new markets and develop programming. In certain instances, an investment may qualify as a variable interest entity (“VIE”). As of June 30, 2014 and December 31, 2013, the Company’s VIEs primarily consisted of Hub Television Networks LLC and OWN LLC, which operate pay television networks in the U.S.

The Company accounted for its interests in VIEs using the equity method, as the Company is not the primary beneficiary of these entities. The aggregate carrying values of these VIE equity method investments were $778 million and $789 million as of June 30, 2014 and December 31, 2013, respectively. The Company recognized $8 million and $24 million in income during the three and six months ended June 30, 2014, respectively, and $10 million and $13 million in losses during the three and six months ended June 30, 2013, respectively, for its portion of net income and losses generated by VIEs.

As of June 30, 2014, the Company’s estimated risk of loss for investment carrying values, unfunded contractual commitments and guarantees made on behalf of VIEs was approximately $839 million. The estimated risk of loss excludes the Company’s expected non-contractual future funding of OWN and its operating performance guarantee for Hub Television Networks LLC, which are discussed below.

Hub Television Networks LLC

Hub Television Networks LLC operates the Hub Network, which is a pay television network that provides children’s and family entertainment and educational programming. The Company is obligated to provide the Hub Network with funding up to $15 million; the Company has not provided any funding as of June 30, 2014. The Company also provides services such as distribution, sales and administrative support services for a fee (see Note 14).

Based upon the level of equity investment at risk, the Hub Network is a VIE. Discovery and its partner, Hasbro, Inc. (“Hasbro”), share equally in voting control and jointly consent to decisions about programming and marketing strategy and thereby direct the activities of the Hub Network that most significantly impact its economic performance. Neither has special governance rights, and both are equally represented on the board of the Hub Network. The partners also share equally in the profits, losses and funding of the Hub Network. The Company has determined that it is not the primary beneficiary of the Hub Network. Accordingly, the Company accounts for its investment in the Hub Network using the equity method.

Through December 31, 2015, the Company has guaranteed the performance of the Hub Network and is required to compensate Hasbro to the extent that distribution metrics decline versus levels historically achieved by the Discovery Kids channel. This guarantee extends on a declining basis through the period of guarantee. Upon inception of the Hub Network on May 22, 2009, the maximum amount potentially due under this guarantee was $300 million. As of June 30, 2014, the maximum amount potentially due under this guarantee was less than $25 million. As the Hub Network’s distribution is obtained under long-term contracts with stable subscriber levels, the Company believes the likelihood is remote that the guaranteed performance levels will not be achieved and, therefore, believes the performance guarantee is unlikely to have an adverse impact on the Company.

The carrying value of the Company’s investment in the Hub Network was $315 million and $312 million as of June 30, 2014 and December 31, 2013, respectively. The Company regularly monitors the valuation of its investment in accordance with GAAP, which requires an impairment charge when there is an other-than-temporary decline in the investment’s value. The Company primarily uses a DCF model to monitor the value of the Company's investment. The Hub Network’s projected financial results and associated cash flows are key assumptions used in estimating the value of the Company's investment. While the Hub Network is currently generating cash flow from operations, the network has not yet achieved the level of profitability and associated cash flows anticipated in the original long-range plan. Management has recently implemented and continues to consider a number of initiatives, including changes to its programing strategy, designed to improve the Hub Network’s financial performance by reducing costs, improving viewership and increasing revenues. The Company will continue to assess the carrying value of its investment in the Hub Network taking into account the outcome of the above initiatives. If the outcome of the above initiatives is not successful, the financial results of the Hub Network will vary negatively from the long range plan and, as a result, the carrying value of Discovery's equity investment, or underlying Hub Network assets, may be impaired. No impairment was recorded during the six months ended June 30, 2014.

OWN LLC

OWN LLC operates OWN, which is a pay television network and website that provides adult lifestyle content, which is focused on self-discovery, self-improvement and entertainment. Based upon the level of equity investment at risk, OWN is a VIE. While the Company and Harpo, Inc. ("Harpo") are partners who share equally in voting control, power is not shared because Harpo holds operational rights related to programming and marketing, as well as selection and retention of key management personnel that significantly impact OWN’s economic performance. Accordingly, the Company has determined that it is not the primary beneficiary of OWN and accounts for its investment in OWN using the equity method. However, the Company provides OWN funding, content licenses, and services such as distribution, sales and administrative support for a fee (see Note 14).

The Company's combined advances to and note receivable from OWN, including accrued interest, were $461 million and $483 million, as of June 30, 2014 and December 31, 2013, respectively. During the six months ended June 30, 2014, the Company received net repayments of $39 million from OWN and accrued interest on the note receivable of $17 million. During the six months ended June 30, 2013, the Company provided OWN with net funding of $13 million and accrued interest on the note receivable of $14 million. The note receivable is secured by the net assets of OWN. While the Company has no further funding commitments, the Company will provide additional funding to OWN, if necessary, and expects to recoup amounts funded. The funding to OWN accrues interest at 7.5% compounded annually. There can be no event of default on the borrowing until 2023. However, borrowings are scheduled for repayment four years after the borrowing date to the extent that OWN has excess cash to repay the borrowings then due. Following such repayment, OWN’s subsequent cash distributions will be shared equally between the Company and Harpo. OWN began repaying amounts owed to the Company during 2013.

In accordance with the venture agreement, losses generated by OWN are generally allocated to both investors based on their proportionate ownership interests. However, the Company has recorded its portion of OWN’s losses based upon accounting policies for equity method investments. Prior to the contribution of the Discovery Health network to OWN at its launch, the Company had recognized $104 million or 100% of OWN’s net losses. During the three months ended March 31, 2012, accumulated operating losses at OWN exceeded the equity contributed to OWN, and Discovery began again to record 100% of OWN’s net losses. Although OWN has become profitable, the Company will record 100% of any net losses resulting from OWN's operations as long as Discovery provides all funding to OWN and OWN’s accumulated losses continue to exceed the equity contributed. All of OWN's future net income will initially be recorded by the Company until the Company recovers losses absorbed in excess of the Company's equity ownership interest.

The carrying value of the Company’s investment in OWN of $429 million and $449 million as of June 30, 2014 and December 31, 2013, respectively, includes a note receivable balance and accumulated investment losses. Given that the early results of OWN’s operations have been below its initial business plan, there is a possibility that the results of OWN’s future operations will fall below the revised long-term projections. The Company continues to monitor the financial results of OWN along with other relevant business information to assess the recoverability of the OWN note receivable. No impairment was recorded during the six months ended June 30, 2014.

Harpo has the right to require the Company to purchase all or part of Harpo’s interest in OWN at fair market value up to a maximum put amount every two and a half years commencing January 1, 2016. The maximum put amount ranges from $100 million on the first put exercise date up to a cumulative cap of $400 million on the fourth put exercise date. The Company has recorded no amounts for the put right.

NOTE 4. FAIR VALUE MEASUREMENTS

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

| | | |
|---|---|---|
| Level 1 | – | Quoted prices for identical instruments in active markets. |
| Level 2 | – | Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets. |
| Level 3 | – | Valuations derived from techniques in which one or more significant inputs are unobservable. |

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

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

| | | June 30, 2014 | | | |
|---|---|---|---|---|---|
| Category | Balance Sheet Location | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | | |
| Trading securities: | | | | | |
| Mutual funds | Prepaid expenses and other current assets | $143 | $— | $— | $143 |
| Derivatives: | | | | | |
| Foreign exchange | Prepaid expenses and other current assets | — | 5 | — | 5 |
| Foreign exchange | Other noncurrent assets | — | 6 | — | 6 |
| Total assets | | $143 | $11 | $— | $154 |
| Liabilities: | | | | | |
| Deferred compensation plan | Accrued liabilities | $143 | $— | $— | $143 |
| Derivatives: | | | | | |
| Foreign exchange | Accrued liabilities | — | 5 | — | 5 |
| Interest rate | Accrued liabilities | — | 7 | — | 7 |
| TF1 put right | Accrued liabilities | — | — | 4 | 4 |
| Total liabilities | | $143 | $12 | $4 | $159 |

| | | December 31, 2013 | | | |
|---|---|---|---|---|---|
| Category | Balance Sheet Location | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | | |
| Trading securities: | | | | | |
| Mutual funds | Prepaid expenses and other current assets | $129 | $— | $— | $129 |
| Available-for-sale securities: | | | | | |
| Common stock | Other noncurrent assets | 4 | — | — | 4 |
| Derivatives: | | | | | |
| Foreign exchange | Prepaid expenses and other current assets | — | 4 | — | 4 |
| Foreign exchange | Other noncurrent assets | — | 9 | — | 9 |
| Total assets | | $133 | $13 | $— | $146 |
| Liabilities: | | | | | |
| Deferred compensation plan | Accrued liabilities | $129 | $— | $— | $129 |
| Derivatives: | | | | | |
| Foreign exchange | Accrued liabilities | — | 1 | — | 1 |
| TF1 put right | Accrued liabilities | — | — | 20 | 20 |
| Total liabilities | | $129 | $1 | $20 | $150 |

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

Available-for-sale securities represent equity investments in highly liquid instruments. The fair value of Level 1 available-for-sale securities was determined by reference to the quoted market price per unit in active markets multiplied by the number of units held without consideration of transaction costs.

Derivative financial instruments are comprised of foreign exchange contracts used by the Company to modify its exposure to market risks from foreign exchange rates. The fair value of Level 2 derivative financial instruments was determined using a market-based approach.

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

As of June 30, 2014, TF1 had the conditional right to require the Company to purchase its remaining shares in Eurosport France at various dates should Discovery complete its planned acquisition of a controlling interest in Eurosport France. Previously, TF1 had the conditional right to require the Company to purchase its remaining shares in Eurosport, inclusive of Eurosport France. Following the consolidation of Eurosport, excluding Eurosport France, TF1 retained a conditional right to require Discovery to purchase its remaining shares in Eurosport and a right to put a portion of its interest in Eurosport France to Discovery. The option on Eurosport, which is embedded in the noncontrolling interest, has resulted in the classification of the noncontrolling interest in Eurosport as a component of redeemable equity. The separate written put for Eurosport France does not qualify for equity classification and is reported at fair value and subsequently marked to fair value through earnings regardless of associated contingencies. The fair value measurement of the TF1 put on Eurosport France was determined through the use of a Monte Carlo simulation model. The Monte Carlo model simulates the various sources of uncertainty impacting the value of a financial instrument and uses those simulations to develop an estimated fair value for the instrument. The valuation methodology for the TF1 put for Eurosport France is based on unobservable estimates and judgments, and therefore represents a Level 3 fair value measurement. At June 30, 2014 , the estimated fair value of the TF1 put was $4 million. (See Note 2.)

In addition to the financial instruments listed in the tables above, the Company holds other financial instruments, including cash deposits, accounts receivable, accounts payable and debt. The carrying values for each approximated their fair values other than debt. The estimated fair value of the Company’s outstanding senior notes using quoted prices from over the counter markets, considered Level 2 inputs, was $7.5 billion and $6.6 billion as of June 30, 2014 and December 31, 2013, respectively.

NOTE 5. CONTENT RIGHTS

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

| | June 30, 2014 | December 31, 2013 |
|---|---|---|
| Produced content rights: | | |
| Completed | $3,501 | $3,566 |
| In-production | 387 | 334 |
| Coproduced content rights: | | |
| Completed | 655 | 637 |
| In-production | 94 | 84 |
| Licensed content rights: | | |
| Acquired | 934 | 880 |
| Prepaid | 65 | 48 |
| Content rights, at cost | 5,636 | 5,549 |
| Accumulated amortization | (3,383) | (3,389) |
| Total content rights, net | 2,253 | 2,160 |
| Current portion | (318) | (277) |
| Noncurrent portion | $1,935 | $1,883 |

Content expense, which consists of content amortization, impairments and other production charges, is included in costs of revenues on the consolidated statements of operations. Content expense was $395 million and $772 million for the three and six months ended June 30, 2014, respectively and $333 million and $589 million for the three and six months ended June 30, 2013, respectively. Content impairments were $10 million and $16 million for the three and six months ended June 30, 2014, respectively and $8 million and $12 million for the three and six months ended June 30, 2013, respectively.

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

NOTE 6. DEBT

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

| | June 30, 2014 | December 31, 2013 |
|---|---|---|
| 3.70% Senior Notes, semi-annual interest, due June 2015 | $850 | $850 |
| 5.625% Senior Notes, semi-annual interest, due August 2019 | 500 | 500 |
| 5.05% Senior Notes, semi-annual interest, due June 2020 | 1,300 | 1,300 |
| 4.375% Senior Notes, semi-annual interest, due June 2021 | 650 | 650 |
| 2.375% Senior Notes, euro denominated, annual interest, due March 2022[a] | 409 | — |
| 3.30% Senior Notes, semi-annual interest, due May 2022 | 500 | 500 |
| 3.25% Senior Notes, semi-annual interest, due April 2023 | 350 | 350 |
| 6.35% Senior Notes, semi-annual interest, due June 2040 | 850 | 850 |
| 4.95% Senior Notes, semi-annual interest, due May 2042 | 500 | 500 |
| 4.875% Senior Notes, semi-annual interest, due April 2043 | 850 | 850 |
| Capital lease obligations | 171 | 165 |
| Commercial paper | 162 | — |
| Total debt | 7,092 | 6,515 |
| Unamortized discount | (18) | (16) |
| Debt, net | 7,074 | 6,499 |
| Current portion of debt | (1,029) | (17) |
| Noncurrent portion of debt | $6,045 | $6,482 |

[a] Remeasurement from euro using the exchange rate of €1.00 = $1.36 on June 30, 2014.

Senior Notes

On March 7, 2014, Discovery Communications, LLC ("DCL"), a wholly-owned subsidiary of the Company, issued €300 million principal amount ($417 million, at issuance based on the exchange rate of $1.39 per euro at March 7, 2014) of 2.375% Senior Notes due March 7, 2022 (the "2014 Notes"). The proceeds received by DCL from the offering were net of a $3 million issuance discount and $2 million of deferred financing costs.

DCL has the option to redeem some or all of the 2014 Notes at any time prior to their maturity by paying a make-whole premium plus accrued and unpaid interest, if any, through the date of repurchase. Interest on the 2014 Notes is payable annually on March 7 of each year. The 2014 Notes are unsecured and rank equally in right of payment with all of DCL's other unsecured senior indebtedness. All of DCL's outstanding senior notes are fully and unconditionally guaranteed on an unsecured and unsubordinated basis by Discovery and contain certain nonfinancial covenants, events of default and other customary provisions. The Company and DCL were in compliance with all covenants and customary provisions under the Senior Notes and there were no events of default as of June 30, 2014. The 2014 Notes are denominated in euro and expose Discovery to fluctuations in foreign exchange rates in that currency. Discovery has reported the change in remeasurement for these 2014 Notes in earnings.

Revolving Credit Facilities

On June 20, 2014, DCL revised its $1.0 billion revolving credit facility to allow DCL and certain designated foreign subsidiaries of DCL to borrow up to $1.5 billion, including a $750 million sublimit for multi-currency borrowings, a $100 million sublimit for the issuance of standby letters of credit and a $50 million sublimit for swing line loans. Borrowing capacity under this agreement is reduced by the outstanding borrowings under our commercial paper program discussed below. Borrowings under the revolving credit facility will bear interest at rates that vary based on DCL’s debt ratings from time to time. DCL also has the ability to request an increase of the revolving credit facility up to an aggregate additional $1.0 billion, upon the satisfaction of certain conditions. The revolving credit facility agreement provides for a maturity date of June 20, 2019. There were no amounts drawn under the revolving credit facility as of June 30, 2014 or December 31, 2013. All obligations of DCL and the other borrowers under the revolving credit facility are unsecured and are fully and unconditionally guaranteed by Discovery.

The credit agreement governing the revolving credit facility contains customary representations, warranties and events of default, as well as affirmative and negative covenants. As of June 30, 2014, the Company, DCL and the other borrowers were in compliance with all covenants and there were no events of default under the revolving credit facility.

Commercial Paper

On May 22, 2014, the Company entered into a commercial paper program. The commercial paper issued under this program is supported by the revolving credit facility described above. Outstanding commercial paper borrowings were $162 million as of June 30, 2014 and had a weighted average interest rate of approximately 0.3% and maturities of less than 90 days.

NOTE 7. DERIVATIVE FINANCIAL INSTRUMENTS

The Company may use derivative financial instruments to modify its exposure to market risks from changes in foreign exchange rates and interest rates. The Company does not enter into or hold derivative financial instruments for speculative trading purposes.

During the six months ended June 30, 2014 and 2013, the Company designated foreign currency forward contracts used to hedge anticipated third-party revenue and exposures arising from inter-company licensing agreements as cash flow hedges. Inter-company transactions are billed in the invoicing party's functional currency. Discovery's international entities license content, trademarks, and management services from a wholly owned shared services hub. When the shared services hub sells to a Discovery entity with a different functional currency, the result is a foreign currency exposure for the local entity. The Company also designated interest rate contracts used to hedge the pricing for certain senior notes as cash flow hedges. Gains and losses on the effective portion of designated cash flow hedges are initially recorded in accumulated other comprehensive (loss) income on the consolidated balance sheet and reclassified to the statements of operations when the hedged item is recognized.

During the six months ended June 30, 2014 and 2013, the Company acquired foreign currency forward contracts in its business combinations that did not qualify for hedge accounting. During the six months ended June 30, 2013, the Company also entered into foreign exchange contracts in connection with the planned acquisition of SBS Nordic (see Note 2). These derivatives, which economically hedged the Company's exposure to fluctuations in certain foreign currency exchange rates, did not qualify for hedge accounting. There were no unsettled foreign exchange contracts held by the Company in connection with potential business combinations as of June 30, 2014 and December 31, 2013. Realized and unrealized gains and losses on foreign currency forward contracts that do not qualify for hedge accounting are reflected in other income, net on the consolidated statements of operations.

As of December 31, 2013, TF1 had the conditional right to require the Company to purchase its remaining shares in Eurosport. On May 30, 2014, the Company acquired a controlling interest in Eurosport, excluding Eurosport France, and the put right applicable to the acquired business became a component of the remeasurement gain on previously held equity interest recorded upon consolidation of Eurosport (see Note 2). As of May 30, 2014, Eurosport was consolidated, and this put right is represented as a component of redeemable equity recorded at fair value on the opening balance sheet as of June 30, 2014. (See Note 8.) A written put for Eurosport France that does not qualify for equity classification is reported at fair value and subsequently marked to fair value through earnings regardless of associated contingencies (see Note 4).

The Company records all unsettled derivative contracts on the consolidated balance sheet at fair value (see Note 4); derivatives in an asset position are classified as assets, and derivatives in a liability position are classified as liabilities. The Company's master netting agreements allow the Company to settle derivative contracts denominated in the same currency with a single counterparty on the same day on a net basis. There were no amounts eligible to be offset under master netting agreements as of June 30, 2014 and December 31, 2013.

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

The following table summarizes the notional amount and fair value of the Company's derivative positions (in millions).

| | | June 30, 2014 | | December 31, 2013 | |
|---|---|---|---|---|---|
| | Balance Sheet Location | Notional | Fair Value | Notional | Fair Value |
| Derivatives designated as hedges: | | | | | |
| Foreign exchange | Prepaid expenses and other current assets | $117 | $5 | $16 | $4 |
| Interest rate | Prepaid expenses and other current assets | $50 | $— | $— | $— |
| Foreign exchange | Other noncurrent assets | $28 | $6 | $36 | $9 |
| Foreign exchange | Accrued liabilities | $147 | $4 | $— | $— |
| Interest rate | Accrued liabilities | $300 | $7 | $— | $— |
| Derivatives not designated as hedges: | | | | | |
| Foreign exchange | Accrued liabilities | $8 | $1 | $4 | $1 |
| Foreign exchange | Other noncurrent liabilities | $6 | $— | $3 | $— |
| TF1 put right | Accrued liabilities | $76 | $4 | $574 | $20 |

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| (Losses) gains recognized in accumulated other comprehensive (loss) income | | | | |
| Foreign exchange | $(2) | $1 | $(4) | $6 |
| Interest rate | $(7) | $— | $(7) | $— |
| (Losses) gains reclassified from accumulated other comprehensive (loss) income into income (effective portion) | | | | |
| Foreign exchange - distribution revenue | $(1) | $— | $(1) | $— |
| Foreign exchange - other income, net | $— | $— | $1 | $— |

The following table presents the pretax gains (losses) on derivatives not designated as hedges and the TF1 put recognized in other income, net in the consolidated statements of operations (in millions).

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Foreign exchange derivatives | $— | $3 | $— | $(56) |
| TF1 put right | — | — | (7) | — |
| Total | $— | $3 | $(7) | $(56) |

NOTE 8. REDEEMABLE NONCONTROLLING INTERESTS

In connection with the acquisition of Discovery Japan on January 10, 2013, the Company recognized $35 million for the fair value of J:COM's noncontrolling interest (see Note 2). The terms of the agreement provide J:COM with a right to put all, but not less than all, of its 20% noncontrolling interest to Discovery at any time for cash. For the first four years, the redemption value is the January 10, 2013 fair value denominated in Japanese yen; thereafter, the redemption value is the greater of the then current fair value or the January 10, 2013 fair value denominated in Japanese yen.

In connection with the acquisition of SBS Nordic on April 9, 2013, the Company recognized $6 million for the fair value of a noncontrolling interest in one of its Danish subsidiaries (see Note 2). The noncontrolling interest holder has a conditional right from November 20, 2014 through May 31, 2015 to put its 20% ownership interest to SBS. The redemption value is denominated in Danish kroner.

In connection with the acquisition of Eurosport on May 30, 2014, the Company recognized $558 million for TF1's noncontrolling interest in Eurosport. TF1 has the right to put the entirety of its remaining 49% non-controlling interest to the

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

Company during two 90-day windows for two and a half years after May 30, 2014. If the put right is exercised during the first 90-day window beginning July 1, 2015, it has a floor value equal to the fair value per share of Eurosport on May 30, 2014. If the put right is exercised during the second 90-day window beginning July 1, 2016, it will be priced at the then-current fair value per share of Eurosport, or as may be agreed between the Company and TF1. As TF1's put right is outside the control of the Company, TF1's 49% noncontrolling interest is presented as redeemable noncontrolling interest outside of stockholders' equity on the Company's consolidated balance sheet. (See Note 2.)
Redeemable noncontrolling interests reflected as of the balance sheet date are the greater of the noncontrolling interest balances adjusted for comprehensive income items and distributions or the redemption values remeasured at the period end foreign exchange rates (i.e. the "floor"). Adjustments to the carrying amount of redeemable noncontrolling interests to redemption value as a result of changes in exchange rates are reflected in currency translation adjustments, a component of other comprehensive (loss) income; however, such currency translation adjustments to redemption value are allocated to Discovery stockholders only. Redeemable noncontrolling interest adjustments of redemption value other than fair value to the floor are reflected in retained earnings and as an adjustment to income from continuing operations available to Discovery Communications, Inc. stockholders in the calculation of earnings per share. (See Note 12.)
The table below presents the reconciliation of changes in redeemable noncontrolling interests (in millions).

| | Six Months Ended June 30, | |
|---|---|---|
| | 2014 | 2013 |
| Beginning balance | $36 | $— |
| Initial fair value of redeemable noncontrolling interests of acquired businesses | 558 | 35 |
| Cash distributions to redeemable noncontrolling interests | (2) | — |
| Comprehensive income (loss) adjustments: | | |
| Net income attributable to redeemable noncontrolling interests | 4 | — |
| Other comprehensive income (loss) attributable to redeemable noncontrolling interests | 1 | (1) |
| Currency translation on redemption values | — | (4) |
| Retained earnings adjustments: | | |
| Adjustments to redemption value | 1 | 1 |
| Ending balance | $598 | $31 |

NOTE 9. EQUITY
Common Stock Repurchase Program
Under the Company's stock repurchase program, management is authorized to purchase shares of the Company's common stock from time to time through open market purchases or privately negotiated transactions at prevailing prices or pursuant to one or more accelerated stock repurchase agreements or other derivative arrangements as permitted by securities laws and other legal requirements, and subject to stock price, business and market conditions and other factors. The total authorization under the stock repurchase program is $5.5 billion. As of June 30, 2014, the Company had remaining authorization of $1.2 billion for future repurchases under the stock repurchase program, which will expire on February 3, 2016.
Repurchased common stock is recorded in treasury stock on the consolidated balance sheet. All repurchases during the three and six months ended June 30, 2014 and 2013 were made through open market transactions and were funded using cash on hand. As of June 30, 2014, the Company had repurchased over the life of the program 2.8 million and 80.1 million shares of Series A and Series C common stock for the aggregate purchase price of $171 million and $4.1 billion, respectively.

The table below presents a summary of stock repurchases (in millions). There were no Series A common stock repurchases during the three and six months ended June 30, 2014 and 2013.

22

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Series C Common Stock: | | | | |
| Shares repurchased | 6.7 | 3.8 | 10.1 | 3.8 |
| Purchase price | $503 | $265 | $769 | $265 |

Preferred Stock Repurchase

On May 22, 2014, the Company entered into an agreement with Advance/Newhouse Programming Partnership ("Advance/Newhouse") to repurchase, on a quarterly basis, a number of shares of Series C convertible preferred stock convertible into a number of shares of Series C common stock equal to 3/7 of all shares of Series C common stock purchased under the Company's stock repurchase program during the then most recently completed fiscal quarter. The price paid per share is calculated as 99% of the average price paid for the Series C common shares repurchased by the Company during the applicable fiscal quarter multiplied by the Series C conversion rate. The Series C conversion rate will change from one to two upon the effective date of the stock split in the form of a share dividend that Discovery's Board of Directors approved on May 16, 2014 (see Note 12). The shares are to be retired upon settlement, which will occur two days after release of the applicable earnings. The Advance/Newhouse repurchases are made outside of the Company's publicly announced stock repurchase program. Based on the number of shares of Series C common stock purchased during the three months ended June 30, 2014, the Company expects to repurchase and retire 1.5 million shares of its Series C convertible preferred stock for an aggregate purchase price of $110 million on or about August 4, 2014. The repurchase transaction will be recorded as a decrease of par value of preferred stock and retained earnings upon settlement using cash on hand.

On April 5, 2013, the Company repurchased and retired 4 million shares of its Series C convertible preferred stock from Advance/Newhouse for an aggregate purchase price of $256 million, which was recorded as a decrease of par value of preferred stock and retained earnings. The repurchase was made outside of the Company's publicly announced stock repurchase program, using cash on hand.

Common Stock

On February 13, 2014, John C. Malone, a member of Discovery's Board of Directors, entered into an agreement granting David Zaslav, the Company's President and Chief Executive Officer, certain voting and purchase rights with respect to the approximately 5.9 million shares of the Company's Series B common stock owned by Dr. Malone. The agreement gives Mr. Zaslav the right to vote the Series B shares if Dr. Malone is not otherwise voting or directing the vote of those shares. The agreement also provides that if Dr. Malone proposes to sell the Series B shares, Mr. Zaslav will have the first right to negotiate for the purchase of the shares. If that negotiation is not successful and Dr. Malone proposed to sell the Series B shares to a third party, Mr. Zaslav will have the exclusive right to match that offer. The rights granted under the agreement will remain in effect for as long as Mr. Zaslav is either employed as a principal executive officer of the Company or serving on its Board of Directors.

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

Other Comprehensive (Loss) Income

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

| | Three Months Ended June 30, 2014 | | | Three Months Ended June 30, 2013 | | |
|---|---|---|---|---|---|---|
| | Pretax | Tax (Provision) Benefit | Net-of-tax | Pretax | Tax Benefit | Net-of-tax |
| Currency translation adjustments: | | | | | | |
| Unrealized losses | $(18) | $(8) | $(26) | $(50) | $2 | $(48) |
| Reclassifications to other income, net | (7) | — | (7) | — | — | — |
| Derivative and market value adjustments: | | | | | | |
| Unrealized (losses) gains | (8) | 2 | (6) | 2 | — | 2 |
| Reclassifications to distribution revenue | 1 | — | 1 | — | — | — |
| Reclassifications to gain on disposition | (5) | 2 | (3) | — | — | — |
| Other comprehensive loss | $(37) | $(4) | $(41) | $(48) | $2 | $(46) |

| | Six Months Ended June 30, 2014 | | | Six Months Ended June 30, 2013 | | |
|---|---|---|---|---|---|---|
| | Pretax | Tax (Provision) Benefit | Net-of-tax | Pretax | Tax Benefit (Provision) | Net-of-tax |
| Currency translation adjustments: | | | | | | |
| Unrealized losses | $(16) | $(9) | $(25) | $(114) | $13 | $(101) |
| Reclassifications to other income, net | (7) | — | (7) | (9) | 3 | (6) |
| Derivative and market value adjustments: | | | | | | |
| Unrealized (losses) gains | (9) | 3 | (6) | 9 | (3) | 6 |
| Reclassifications to distribution revenue | 1 | — | 1 | — | — | — |
| Reclassifications to gain on disposition | (5) | 2 | (3) | — | — | — |
| Reclassifications to other income, net | (1) | — | (1) | — | — | — |
| Other comprehensive loss | $(37) | $(4) | $(41) | $(114) | $13 | $(101) |

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

Accumulated Other Comprehensive (Loss) Income
The table below presents the changes in the components of accumulated other comprehensive (loss) income, net of taxes (in millions).

| | Three Months Ended June 30, 2014 | | | Three Months Ended June 30, 2013 | | |
|---|---|---|---|---|---|---|
| | Currency Translation Adjustments | Derivative and Market Value Adjustments | Accumulated Other Comprehensive Income (Loss) | Currency Translation Adjustments | Derivative and Market Value Adjustments | Accumulated Other Comprehensive Loss |
| Beginning balance | $(7) | $11 | $ 4 | $(60) | $9 | $ (51) |
| Other comprehensive (loss) income before reclassifications | (26) | (6) | (32) | (48) | 2 | (46) |
| Reclassifications from accumulated other comprehensive (loss) income to net income | (7) | (2) | (9) | — | — | — |
| Other comprehensive (loss) income | (33) | (8) | (41) | (48) | 2 | (46) |
| Other comprehensive (income) loss attributable to redeemable noncontrolling interests | (1) | — | (1) | 2 | (1) | 1 |
| Ending balance | $(41) | $3 | $ (38) | $(106) | $10 | $ (96) |
| | Six Months Ended June 30, 2014 | | | Six Months Ended June 30, 2013 | | |
| | Currency Translation Adjustments | Derivative and Market Value Adjustments | Accumulated Other Comprehensive Income (Loss) | Currency Translation Adjustments | Derivative and Market Value Adjustments | Accumulated Other Comprehensive Income (Loss) |
| Beginning balance | $(8) | $12 | $ 4 | $(1) | $5 | $ 4 |
| Other comprehensive (loss) income before reclassifications | (25) | (6) | (31) | (101) | 6 | (95) |
| Reclassifications from accumulated other comprehensive (loss) income to net income | (7) | (3) | (10) | (6) | — | (6) |
| Other comprehensive (loss) income | (32) | (9) | (41) | (107) | 6 | (101) |
| Other comprehensive (income) loss attributable to redeemable noncontrolling interests | (1) | — | (1) | 2 | (1) | 1 |
| Ending balance | $(41) | $3 | $ (38) | $(106) | $10 | $ (96) |

NOTE 10. EQUITY-BASED COMPENSATION
The Company has various incentive plans under which performance-based restricted stock units ("PRSUs"), time-based restricted stock units ("RSUs"), stock options, unit awards and stock appreciation rights ("SARs") have been issued. As of June 30, 2014, the Company has reserved a total of 72 million shares of its Series A and Series C common stock for future exercises of outstanding and future grants of stock options and future vesting of outstanding

and future grants of PRSUs and RSUs. Upon exercise of stock options or vesting of PRSUs and RSUs, the Company issues new shares from its existing authorized but unissued shares. There were 61 million shares of common stock in reserves that were available for future grant under incentive plans as of June 30, 2014.

During the six months ended June 30, 2014, the vesting and service requirements of equity-based awards granted were consistent with the arrangements disclosed in the 2013 Form 10-K.

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

Equity-Based Compensation Expense

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| PRSUs and RSUs | $14 | $9 | $25 | $21 |
| Stock options | 6 | 5 | 15 | 13 |
| Unit awards | — | 4 | 1 | 28 |
| SARs | (6) | 6 | (8) | 22 |
| Total equity-based compensation expense | $14 | $24 | $33 | $84 |
| Tax benefit recognized | $5 | $8 | $12 | $22 |

Compensation expense for all awards is recorded in selling, general and administrative expense in the consolidated statements of operations. As of June 30, 2014 and December 31, 2013, the Company recorded total liabilities for cash-settled and certain equity-based awards of $62 million and $138 million, respectively. The current portion of the liability for cash-settled awards was $31 million and $85 million as of June 30, 2014 and December 31, 2013, respectively.

Equity-Based Award Activity

PRSUs and RSUs

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

| | PRSUs and RSUs | Weighted-Average Grant Price | Weighted-Average Remaining Contractual Term (years) | Aggregate Fair Value |
|---|---|---|---|---|
| Outstanding as of December 31, 2013 | 2.4 | $ 46.00 | | |
| Granted | 1.6 | 83.26 | | |
| Converted | (0.7) | 38.78 | | $59 |
| Forfeited | (0.1) | 78.88 | | |
| Outstanding as of June 30, 2014 | 3.2 | $ 65.21 | 1.3 | $239 |
| Vested and expected to vest as of June 30, 2014 | 3.1 | $ 64.94 | 1.2 | $230 |

PRSUs represent the contingent right to receive shares of the Company’s Series A common stock based on continuous service and the Company's achievement of certain operating performance targets. As of June 30, 2014, there were approximately 2 million outstanding PRSUs with a weighted-average grant price of $64.20. As of June 30, 2014, unrecognized compensation cost, net of expected forfeitures, related to PRSUs was $85 million, which is expected to be recognized over a weighted-average period of 0.9 years.

RSUs represent the contingent right to receive shares of the Company’s Series A common stock based on continuous service. As of June 30, 2014, there were slightly less than 1 million outstanding RSUs with a weighted-average grant price of $68.04. As of June 30, 2014, unrecognized compensation cost, net of expected forfeitures, related to RSUs was $39 million, which is expected to be recognized over a weighted-average period of 2.8 years.

Stock Options

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

| | Stock Options | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term (years) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding as of December 31, 2013 | 7.6 | $36.47 | | |
| Granted | 1.0 | 82.49 | | |
| Exercised | (0.6) | 27.66 | | $29 |
| Forfeited | (0.1) | 57.79 | | |
| Outstanding as of June 30, 2014 | 7.9 | $42.57 | 4.4 | $262 |
| Vested and expected to vest as of June 30, 2014 | 7.8 | $41.86 | 4.3 | $260 |
| Exercisable as of June 30, 2014 | 5.8 | $32.87 | 3.9 | $240 |

The Company received cash payments from the exercise of stock options totaling $15 million and $28 million during the six months ended June 30, 2014 and 2013, respectively. The weighted average grant date fair value of stock options granted during the six months ended June 30, 2014 was $21.46 per option. As of June 30, 2014, there was $35 million of unrecognized compensation cost, net of expected forfeitures, related to stock options, which is expected to be recognized over a weighted-average period of 2.2 years.

Unit Awards

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

| | Unit Awards | Weighted-Average Grant Price | Weighted-Average Remaining Contractual Term (years) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding as of December 31, 2013 | 1.6 | $38.46 | | |
| Settled | (1.0) | 36.96 | | $52 |
| Outstanding as of June 30, 2014 | 0.6 | $41.17 | 0.5 | $20 |
| Vested and expected to vest as of June 30, 2014 | 0.6 | $41.17 | 0.5 | $20 |

Unit awards represent the contingent right to receive a cash payment for the amount by which the vesting price of Company stock exceeds the grant price. Because unit awards are cash-settled, the Company remeasures the fair value and compensation expense of outstanding unit awards each reporting date until settlement. As of June 30, 2014, the weighted-average fair value of unit awards outstanding was $33.66 per unit award. The Company made cash payments to settle vested unit awards totaling $52 million and $50 million during the six months ended June 30, 2014 and 2013, respectively. As of June 30, 2014, there was $8 million of unrecognized compensation cost related to unit awards, which is expected to be recognized over a weighted-average period of 0.5 years.

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

SARs

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

| | SARs | Weighted-Average Grant Price | Weighted-Average Remaining Contractual Term (years) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding as of December 31, 2013 | 3.2 | $ 55.20 | | |
| Granted | 3.7 | 86.49 | | |
| Settled | (0.9 ) | 53.56 | | $ 29 |
| Outstanding as of June 30, 2014 | 6.0 | $ 74.74 | 1.8 | $ 43 |
| Vested and expected to vest as of June 30, 2014 | 6.0 | $ 74.74 | 1.8 | $ 43 |

As of June 30, 2014, the weighted-average fair value of SARs outstanding was $11.64 per award. The Company made cash payments of $29 million and $11 million to settle exercised SARs during the six months ended June 30, 2014 and 2013, respectively. As of June 30, 2014, there was $35 million of unrecognized compensation cost related to SARs, which is expected to be recognized over a weighted-average period of 1.7 years.

Employee Stock Purchase Plan

The Discovery Communications, Inc. 2011 Employee Stock Purchase Plan (the "DESPP") enables eligible employees to purchase shares of the Company’s common stock through payroll deductions or other permitted means. During the six months ended June 30, 2014 and 2013, the Company issued 55 thousand and 36 thousand shares under the DESPP and received cash totaling $4 million and $3 million, respectively.

NOTE 11. INCOME TAXES

The Company's provisions for income taxes on income from continuing operations were $208 million and $326 million, and effective income tax rate was 35% for each of the three and six months ended June 30, 2014, respectively. The Company's provisions for income taxes on income from continuing operations were $181 million and $327 million, and effective income tax rate was 38% for each of the three and six months ended June 30, 2013, respectively.

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| U.S. federal statutory income tax rate | 35 % | 35 % | 35 % | 35 % |
| State and local income taxes, net of federal tax benefit | 3 % | 3 % | 3 % | 3 % |
| Effect of foreign operations | 2 % | 2 % | 1 % | 2 % |
| Domestic production activity deductions | (3 )% | (3 )% | (3 )% | (1 )% |
| Change in uncertain tax positions | (2 )% | — % | (2 )% | — % |
| Remeasurement gain on previously held equity interest | — % | (2 )% | — % | (2 )% |
| Other, net | — % | 3 % | 1 % | 1 % |
| Effective income tax rate | 35 % | 38 % | 35 % | 38 % |

The Company and its subsidiaries file income tax returns in the U.S. and various state and foreign jurisdictions. The Company is currently under examination by the IRS for its 2011 and 2010 consolidated federal income tax returns. The Company does not anticipate any material adjustments. With few exceptions, the Company is no longer subject to

audit by any jurisdiction for years prior to 2006.
The Company's reserves for uncertain tax positions at June 30, 2014 and December 31, 2013 totaled $161 million and $185 million, respectively. It is reasonably possible that the total amount of unrecognized tax benefits related to certain of the

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

Company's uncertain tax positions could decrease as much as $33 million within the next twelve months as a result of ongoing audits, lapses of statutes of limitations or regulatory developments.

As of June 30, 2014 and December 31, 2013, the Company had accrued approximately $14 million and $11 million, respectively, of total interest and penalties payable related to unrecognized tax benefits. The Company recognizes interest and penalties related to unrecognized tax benefits as a component of income tax expense.

NOTE 12. EARNINGS PER SHARE

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Numerator: | | | | |
| Net income | $ 384 | $ 300 | $ 615 | $ 531 |
| Less: | | | | |
| Net income attributable to noncontrolling interests | (2) | — | (2) | — |
| Net income attributable to redeemable noncontrolling interests | (3) | — | (4) | — |
| Redeemable noncontrolling interest adjustments to redemption value | (2) | (3) | (1) | (1) |
| Stock dividends to preferred interests | (1) | — | (1) | — |
| Net income available to Discovery Communications, Inc. stockholders | $ 376 | $ 297 | $ 607 | $ 530 |
| | | | | |
| Denominator: | | | | |
| Weighted average shares outstanding — basic | 343 | 359 | 346 | 361 |
| Weighted average dilutive effect of equity awards | 3 | 4 | 3 | 4 |
| Weighted average shares outstanding — diluted | 346 | 363 | 349 | 365 |
| | | | | |
| Net income per share available to Discovery Communications, Inc. stockholders: | | | | |
| Basic | $ 1.10 | $ 0.83 | $ 1.75 | $ 1.47 |
| Diluted | $ 1.09 | $ 0.82 | $ 1.74 | $ 1.45 |

Earnings per share is calculated by dividing the applicable income available to Discovery Communications, Inc. stockholders from continuing operations by the weighted average number of shares outstanding. The two-class method calculates earnings per share by distinguishing between the classes of securities based on the proportionate participation rights of each security type in the Company's undistributed income. Adjustments to the carrying amount of redeemable noncontrolling interests to redemption value when redemption value is other than fair value, excluding currency translation adjustments, are reflected in earnings per share to effectively employ the two-class method, similar to the treatment of a dividend.

At June 30, 2014 and 2013, the weighted average number of basic and diluted shares outstanding included the Company’s outstanding Series A, Series B and Series C common stock, as well as its outstanding Series A and Series C convertible preferred stock, as the holder of each common and preferred series legally participates equally in any per share distributions. Diluted earnings per share adjusts basic earnings per share for the dilutive effect of the assumed exercise of outstanding equity awards using the treasury stock method. Only outstanding PRSUs whose performance targets have been achieved as of the last day of the most recent period are included in the dilutive effect calculation.

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

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Anti-dilutive stock options, PRSUs and RSUs | 2 | 1 | 2 | 1 |
| PRSUs whose performance targets have not been achieved | 2 | 1 | 2 | 1 |

Share Dividend

On May 16, 2014, Discovery's Board of Directors approved a stock split effected in the form of a share dividend (the "2014 Share Dividend") of one share of the Company's Series C common stock on each outstanding share of Series A, Series B, and Series C common stock. The 2014 Share Dividend will be paid on August 6, 2014 to stockholders of record on July 28, 2014.

All per share amounts and number of shares outstanding in these consolidated financial statements and note disclosures are presented on a pre-split basis. As a result of the 2014 Share Dividend, the Company will adjust all historical per share data and the number of shares outstanding presented in future financial statements retroactively beginning with the quarter ending September 30, 2014. As of June 30, 2014, each share of Series A and Series C convertible preferred stock is convertible into one share of Series A or Series C common stock, respectively. Following the 2014 Share Dividend, each share of Series A and Series C convertible preferred stock will be convertible into one share of Series A or Series C common stock, respectively, plus one share of Series C common stock for each share of convertible preferred stock. The calculation of the pro forma earnings per share allocates income to preferred stockholders based upon the adjusted conversion rate resulting in a lower numerator and denominator for calculating basic earnings per share.

Pro forma earnings per share, giving retroactive effect to the stock split, is as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Net income per share available to Discovery Communications, Inc. stockholders: | | | | |
| Basic - as reported (pre-stock split) | $1.10 | $0.83 | $1.75 | $1.47 |
| Basic - pro forma (post-stock split) | $0.55 | $0.41 | $0.88 | $0.73 |
| Diluted - as reported (pre-stock split) | $1.09 | $0.82 | $1.74 | $1.45 |
| Diluted - pro forma (post-stock split) | $0.54 | $0.41 | $0.87 | $0.73 |

NOTE 13. SUPPLEMENTAL DISCLOSURES

Accrued Liabilities

Accrued liabilities consisted of the following (in millions).

| | June 30, 2014 | December 31, 2013 |
|---|---|---|
| Accrued payroll and related benefits | $340 | $373 |
| Content rights payable | 171 | 212 |
| Accrued income taxes | 150 | 71 |
| Accrued interest | 46 | 43 |
| Current portion of equity-based compensation liabilities | 31 | 85 |
| Other accrued liabilities | 207 | 208 |
| Total accrued liabilities | $945 | $992 |

30

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

Other Income, Net
Other income, net consisted of the following (in millions).

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Foreign currency (losses) gains, net | $(1) | $15 | $(12) | $13 |
| Gain (loss) on derivative instruments | — | 3 | (7) | (56) |
| Remeasurement gain on previously held equity interest | 29 | — | 29 | 92 |
| Other (expense) income, net | (1) | 1 | — | 1 |
| Total other income, net | $27 | $19 | $10 | $50 |

Cash Proceeds from Equity-Based Plans, Net
Cash proceeds from equity-based plans, net consisted of the following (in millions).

| | Six Months Ended June 30, | |
|---|---|---|
| | 2014 | 2013 |
| Tax settlements associated with equity-based plans | $(27) | $(22) |
| Excess tax benefits from equity-based compensation | 21 | 26 |
| Proceeds from issuance of common stock for equity-based plans | 19 | 31 |
| Total cash proceeds from equity-based plans, net | $13 | $35 |

NOTE 14. RELATED PARTY TRANSACTIONS
In the normal course of business, the Company enters into transactions with related parties. Related parties include entities that share common directorship, such as Liberty Global plc (“Liberty Global”), Liberty Media Corporation ("Liberty Media") and their subsidiaries and equity method investees (together the “Liberty Group”). Discovery’s Board of Directors includes Dr. Malone, who is Chairman of the Board of Liberty Global and beneficially owns approximately 28% of the aggregate voting power with respect to the election of directors of Liberty Global. Dr. Malone is Chairman of the Board of Liberty Media and beneficially owns approximately 47% of the aggregate voting power with respect to the election of directors of Liberty Media. The majority of the revenue earned from the Liberty Group relates to multi-year network distribution arrangements. The Company also discloses related party revenues for content and services provided to equity method investees, including unconsolidated VIEs (see Note 3). Other related party revenue and service charges included in the table below primarily consist of distribution revenue from J:COM earned by Discovery Japan. Following the consolidation of Discovery Japan (see Note 2), revenues earned from J:COM are reflected in related party revenues.
The table below presents a summary of the transactions with related parties (in millions).

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Revenues and service charges: | | | | |
| Liberty Group[(a)] | $40 | $28 | $79 | $40 |
| Equity method investees | 23 | 19 | 44 | 37 |
| Other | 10 | 5 | 18 | 9 |
| Total revenues and service charges | $73 | $52 | $141 | $86 |
| Interest income[(b)] | $8 | $9 | $17 | $18 |
| Expenses | $7 | $6 | $17 | $15 |

[a] The increase in revenue from transactions with the Liberty Group is primarily attributable to activity with Charter Communications, Inc. ("Charter") and Virgin Media, Inc. ("Virgin Media"). In May 2013 Liberty Media completed its equity method investment in Charter; Dr. Malone is on Charter's board of directors. In June 2013, Liberty Global announced it had completed its acquisition of Virgin Media. Transactions with Charter and Virgin Media have been reported as related party transactions since the date that they became related parties.

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

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

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

| | June 30, 2014 | December 31, 2013 |
|---|---|---|
| Receivables | $44 | $41 |
| Note receivable (see Note 3) | $461 | $483 |

NOTE 15. COMMITMENTS, CONTINGENCIES, AND GUARANTEES

Commitments

In the normal course of business, the Company enters into various commitments, which primarily include programming and talent arrangements, operating and capital leases, employment contracts, arrangements to purchase various goods and services, future funding commitments to equity method investees (see Note 3), and the obligation to issue or acquire additional shares of preferred stock (see Note 9). In connection with the Company's business combinations in 2014 (see Note 2), the Company assumed or entered into various commitments, which include primarily programming arrangements and operating and capital leases.

Contingencies

Put Rights

The Company has granted put rights related to certain equity method investments and consolidated subsidiaries: Harpo has the right to require the Company to purchase its interest in OWN for fair value at various dates (see Note 3); TF1 has the conditional right to require the Company to purchase its remaining shares in Eurosport France (see Note 4); and noncontrolling interests, including TF1 and J:COM hold put rights that obligate the Company to purchase redeemable noncontrolling interests in consolidated subsidiaries (see Note 8).

Legal Matters

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

Guarantees

The Company has guaranteed a certain level of operating performance for the Hub Network (see Note 3). There were no amounts recorded for guarantees associated with the Hub Network as of June 30, 2014 and December 31, 2013.

The Company may provide indemnities intended to allocate business transaction risks. Similarly, the Company may remain contingently liable for certain obligations of a divested business in the event that a third party does not fulfill its obligations under an indemnification obligation. The Company records a liability for its indemnification obligations and other contingent liabilities when probable and estimable. There were no material amounts for indemnifications or other contingencies recorded as of June 30, 2014 and December 31, 2013.

NOTE 16. REPORTABLE SEGMENTS

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

The accounting policies of the reportable segments are the same as the Company's, except that certain inter-segment transactions that are eliminated for consolidation are not eliminated at the segment level as they are treated as a third-party sales transactions in determining segment performance. Inter-segment transactions, which primarily include the purchase of advertising and content between segments, were not significant for the periods presented.

The Company evaluates the operating performance of its segments based on financial measures such as revenues and adjusted operating income before depreciation and amortization ("Adjusted OIBDA"). Adjusted OIBDA is defined as revenues less costs of revenues and selling, general and administrative expenses excluding: (i) mark-to-market equity-based

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

compensation, (ii) depreciation and amortization, (iii) amortization of deferred launch incentives, (iv) exit and restructuring charges, (v) certain impairment charges and (vi) gains and losses on business and asset dispositions. The Company uses this measure to assess the operating results and performance of its segments, perform analytical comparisons, identify strategies to improve performance and allocate resources to each segment. The Company believes Adjusted OIBDA is relevant to investors because it allows them to analyze the operating performance of each segment using the same metric management uses. The Company excludes mark-to-market equity-based compensation, exit and restructuring charges, certain impairment charges, and gains and losses on business and asset dispositions from the calculation of Adjusted OIBDA due to their volatility. The Company also excludes depreciation of fixed assets, amortization of intangible assets and deferred launch incentives, as these amounts do not represent cash payments in the current reporting period. Certain corporate expenses are excluded from segment results to enable executive management to evaluate segment performance based upon the decisions of segment executives. Adjusted OIBDA should be considered in addition to, but not a substitute for, operating income, net income and other measures of financial performance reported in accordance with GAAP. The tables below present summarized financial information for each of the Company’s reportable segments and corporate and inter-segment eliminations (in millions).

Revenues by Segment

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| U.S. Networks | $777 | $793 | $1,485 | $1,479 |
| International Networks | 802 | 652 | 1,473 | 1,096 |
| Education | 31 | 24 | 63 | 51 |
| Corporate and inter-segment eliminations | — | (2) | — | (3) |
| Total revenues | $1,610 | $1,467 | $3,021 | $2,623 |

Adjusted OIBDA by Segment

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| U.S. Networks | $466 | $472 | $849 | $849 |
| International Networks | 297 | 249 | 518 | 436 |
| Education | 6 | 4 | 12 | 11 |
| Corporate and inter-segment eliminations | (75) | (72) | (160) | (143) |
| Total Adjusted OIBDA | $694 | $653 | $1,219 | $1,153 |

Reconciliation of Total Adjusted OIBDA to Total Operating Income

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Total Adjusted OIBDA | $694 | $653 | $1,219 | $1,153 |
| Amortization of deferred launch incentives | (2) | (5) | (4) | (10) |
| Mark-to-market equity-based compensation | (3) | (12) | (6) | (58) |
| Depreciation and amortization | (75) | (78) | (158) | (110) |
| Restructuring charges | (5) | (9) | (8) | (10) |
| Gain on disposition | 31 | — | 31 | — |
| Operating income | $640 | $549 | $1,074 | $965 |

33

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

Total Assets by Segment

| | June 30, 2014 | December 31, 2013 |
|---|---|---|
| U.S. Networks | $ 3,004 | $ 2,978 |
| International Networks | 6,032 | 4,792 |
| Education | 125 | 125 |
| Corporate and inter-segment eliminations | 6,944 | 7,084 |
| Total assets | $ 16,105 | $ 14,979 |

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

NOTE 17. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

Overview

As of June 30, 2014 and December 31, 2013, the senior notes outstanding (see Note 6) have been issued by DCL, a wholly-owned subsidiary of the Company, in transactions registered with the U.S. Securities and Exchange Commission. The Company fully and unconditionally guarantees the senior notes on an unsecured basis. The Company, DCL, and/or Discovery Communications Holding, LLC (“DCH”), a wholly-owned subsidiary of the Company (collectively, the “Issuers”), have an effective Registration Statement on Form S-3 (the "Shelf Registration") and may issue additional debt securities under the Shelf Registration that are fully and unconditionally guaranteed by one or both of the other Issuers.

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

Basis of Presentation

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

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

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

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

Condensed Consolidating Balance Sheet
June 30, 2014
(in millions)

| | Discovery | DCH | DCL | Non-Guarantor Subsidiaries of DCL | Other Non-Guarantor Subsidiaries of Discovery | Reclassifications and Eliminations | Discovery and Subsidiaries |
|---|---|---|---|---|---|---|---|
| ASSETS | | | | | | | |
| Current assets: | | | | | | | |
| Cash and cash equivalents | $— | $— | $28 | $ 344 | $ — | $ — | $ 372 |
| Receivables, net | — | — | 459 | 1,066 | — | — | 1,525 |
| Content rights, net | — | — | 9 | 309 | — | — | 318 |
| Deferred income taxes | — | — | 35 | 46 | — | — | 81 |
| Prepaid expenses and other current assets | — | — | 160 | 115 | — | — | 275 |
| Intercompany trade receivables, net | — | — | 241 | — | — | (241) | — |
| Total current assets | — | — | 932 | 1,880 | — | (241) | 2,571 |
| Investment in and advances to subsidiaries | 6,133 | 6,149 | 7,658 | — | 4,101 | (24,041) | — |
| Noncurrent content rights, net | — | — | 642 | 1,293 | — | — | 1,935 |
| Goodwill | — | — | 3,769 | 4,357 | — | — | 8,126 |
| Intangible assets, net | — | — | 314 | 1,610 | — | — | 1,924 |
| Equity method investments | — | — | 333 | 495 | — | — | 828 |
| Other noncurrent assets | — | 20 | 175 | 546 | — | (20) | 721 |
| Total assets | $6,133 | $6,169 | $13,823 | $ 10,181 | $ 4,101 | $ (24,302) | $ 16,105 |
| LIABILITIES AND EQUITY | | | | | | | |
| Current liabilities: | | | | | | | |
| Current portion of debt | $— | $— | $1,016 | $ 13 | $ — | $ — | $ 1,029 |
| Other current liabilities | 100 | 17 | 371 | 843 | — | — | 1,331 |
| Intercompany trade payables, net | — | — | — | 241 | — | (241) | — |
| Total current liabilities | 100 | 17 | 1,387 | 1,097 | — | (241) | 2,360 |
| Noncurrent portion of debt | — | — | 5,899 | 146 | — | — | 6,045 |
| Other noncurrent liabilities | 2 | — | 388 | 679 | 19 | (20) | 1,068 |
| Total liabilities | 102 | 17 | 7,674 | 1,922 | 19 | (261) | 9,473 |
| Redeemable noncontrolling interests | — | — | — | 598 | — | — | 598 |
| Equity attributable to Discovery Communications, Inc. | 6,031 | 6,152 | 6,149 | 7,660 | 4,082 | (24,043) | 6,031 |
| Noncontrolling interests | — | — | — | 1 | — | 2 | 3 |
| Total equity | 6,031 | 6,152 | 6,149 | 7,661 | 4,082 | (24,041) | 6,034 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Total liabilities and equity | $6,133 | $6,169 | $13,823 | $ 10,181 | $ 4,101 | $ (24,302 ) | $ 16,105 |

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

Condensed Consolidating Balance Sheet
December 31, 2013
(in millions)

| | Discovery | DCH | DCL | Non-Guarantor Subsidiaries of DCL | Other Non-Guarantor Subsidiaries of Discovery | Reclassifications and Eliminations | Discovery and Subsidiaries |
|---|---|---|---|---|---|---|---|
| ASSETS | | | | | | | |
| Current assets: | | | | | | | |
| Cash and cash equivalents | $— | $— | $123 | $ 285 | $ — | $ — | $ 408 |
| Receivables, net | — | — | 449 | 922 | — | — | 1,371 |
| Content rights, net | — | — | 12 | 265 | — | — | 277 |
| Deferred income taxes | — | — | 31 | 42 | — | — | 73 |
| Prepaid expenses and other current assets | 52 | — | 143 | 86 | — | — | 281 |
| Intercompany trade receivables, net | — | — | 286 | — | — | (286 ) | — |
| Total current assets | 52 | — | 1,044 | 1,600 | — | (286 ) | 2,410 |
| Investment in and advances to subsidiaries | 6,147 | 6,155 | 7,135 | — | 4,112 | (23,549 ) | — |
| Noncurrent content rights, net | — | — | 615 | 1,268 | — | — | 1,883 |
| Goodwill | — | — | 3,769 | 3,572 | — | — | 7,341 |
| Intangible assets, net | — | — | 320 | 1,245 | — | — | 1,565 |
| Equity method investments | — | — | 330 | 757 | — | — | 1,087 |
| Other noncurrent assets | — | 19 | 173 | 521 | — | (20 ) | 693 |
| Total assets | $6,199 | $6,174 | $13,386 | $ 8,963 | $ 4,112 | $ (23,855 ) | $ 14,979 |
| LIABILITIES AND EQUITY | | | | | | | |
| Current liabilities: | | | | | | | |
| Current portion of debt | $— | $— | $5 | $ 12 | $ — | $ — | $ 17 |
| Other current liabilities | 1 | 6 | 421 | 849 | — | — | 1,277 |
| Intercompany trade payables, net | — | — | — | 286 | — | (286 ) | — |
| Total current liabilities | 1 | 6 | 426 | 1,147 | — | (286 ) | 1,294 |
| Noncurrent portion of debt | — | — | 6,343 | 139 | — | — | 6,482 |
| Other noncurrent liabilities | 2 | — | 462 | 505 | 21 | (20 ) | 970 |
| Total liabilities | 3 | 6 | 7,231 | 1,791 | 21 | (306 ) | 8,746 |
| Redeemable noncontrolling interests | — | — | — | 36 | — | — | 36 |
| Equity attributable to Discovery Communications, Inc. | 6,196 | 6,168 | 6,155 | 7,135 | 4,091 | (23,549 ) | 6,196 |
| Noncontrolling interests | — | — | — | 1 | — | — | 1 |
| Total equity | 6,196 | 6,168 | 6,155 | 7,136 | 4,091 | (23,549 ) | 6,197 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Total liabilities and equity | $6,199 | $6,174 | $13,386 | $ 8,963 | $ 4,112 | $ (23,855 ) | $ 14,979 |

36

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

Condensed Consolidating Statement of Operations
Three Months Ended June 30, 2014
(in millions)

| | Discovery | DCH | DCL | Non-Guarantor Subsidiaries of DCL | Other Non-Guarantor Subsidiaries of Discovery | Reclassifications and Eliminations | Discovery and Subsidiaries |
|---|---|---|---|---|---|---|---|
| Revenues | $— | $— | $498 | $ 1,115 | $ — | $ (3) | $ 1,610 |
| Costs of revenues, excluding depreciation and amortization | — | — | 118 | 398 | — | (1) | 515 |
| Selling, general and administrative | 4 | — | 47 | 357 | — | (2) | 406 |
| Depreciation and amortization | — | — | 7 | 68 | — | — | 75 |
| Restructuring charges | — | — | 1 | 4 | — | — | 5 |
| Gain on disposition | — | — | — | (31) | — | — | (31) |
| Total costs and expenses | 4 | — | 173 | 796 | — | (3) | 970 |
| Operating (loss) income | (4) | — | 325 | 319 | — | — | 640 |
| Equity in earnings of subsidiaries | 382 | 382 | 204 | — | 254 | (1,222) | — |
| Interest expense | — | — | (81) | (2) | — | — | (83) |
| Income from equity investees, net | — | — | 3 | 5 | — | — | 8 |
| Other income, net | — | — | 2 | 25 | — | — | 27 |
| Income from continuing operations before income taxes | 378 | 382 | 453 | 347 | 254 | (1,222) | 592 |
| Benefit from (provision for) income taxes | 1 | — | (71) | (138) | — | — | (208) |
| Net income | 379 | 382 | 382 | 209 | 254 | (1,222) | 384 |
| Net income attributable to noncontrolling interests | — | — | — | — | — | (2) | (2) |
| Net income attributable to redeemable noncontrolling interests | — | — | — | — | — | (3) | (3) |
| Net income available to Discovery Communications, Inc. | $379 | $382 | $382 | $ 209 | $ 254 | $ (1,227) | $ 379 |

37

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

Condensed Consolidating Statement of Operations
Three Months Ended June 30, 2013
(in millions)

| | Discovery | DCH | DCL | Non-Guarantor Subsidiaries of DCL | Other Non-Guarantor Subsidiaries of Discovery | Reclassifications and Eliminations | Discovery and Subsidiaries |
|---|---|---|---|---|---|---|---|
| Revenues | $— | $— | $484 | $ 983 | $ — | $ — | $ 1,467 |
| Costs of revenues, excluding depreciation and amortization | — | — | 116 | 321 | — | — | 437 |
| Selling, general and administrative | 6 | 2 | 49 | 337 | — | — | 394 |
| Depreciation and amortization | — | — | 9 | 69 | — | — | 78 |
| Restructuring charges | — | — | — | 9 | — | — | 9 |
| Total costs and expenses | 6 | 2 | 174 | 736 | — | — | 918 |
| Operating (loss) income | (6) | (2) | 310 | 247 | — | — | 549 |
| Equity in earnings of subsidiaries | 304 | 306 | 167 | — | 203 | (980) | — |
| Interest expense | — | — | (78) | (2) | — | — | (80) |
| Income (loss) from equity investees, net | — | — | 2 | (9) | — | — | (7) |
| Other income, net | — | — | 5 | 14 | — | — | 19 |
| Income from continuing operations before income taxes | 298 | 304 | 406 | 250 | 203 | (980) | 481 |
| Benefit from (provision for) income taxes | 2 | — | (100) | (83) | — | — | (181) |
| Net income available to Discovery Communications, Inc. | $300 | $304 | $306 | $ 167 | $ 203 | $ (980) | $ 300 |

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

Condensed Consolidating Statement of Operations
Six Months Ended June 30, 2014
(in millions)

| | Discovery | DCH | DCL | Non-Guarantor Subsidiaries of DCL | Other Non-Guarantor Subsidiaries of Discovery | Reclassifications and Eliminations | Discovery and Subsidiaries |
|---|---|---|---|---|---|---|---|
| Revenues | $— | $— | $949 | $ 2,077 | $ — | $ (5) | $ 3,021 |
| Costs of revenues, excluding depreciation and amortization | — | — | 229 | 771 | — | (3) | 997 |
| Selling, general and administrative | 7 | — | 111 | 699 | — | (2) | 815 |
| Depreciation and amortization | — | — | 17 | 141 | — | — | 158 |
| Restructuring charges | — | — | 1 | 7 | — | — | 8 |
| Gain on disposition | — | — | — | (31) | — | — | (31) |
| Total costs and expenses | 7 | — | 358 | 1,587 | — | (5) | 1,947 |
| Operating (loss) income | (7) | — | 591 | 490 | — | — | 1,074 |
| Equity in earnings of subsidiaries | 614 | 614 | 312 | — | 409 | (1,949) | — |
| Interest expense | — | — | (160) | (4) | — | — | (164) |
| Income from equity investees, net | — | — | 6 | 15 | — | — | 21 |
| Other income, net | — | — | 6 | 4 | — | — | 10 |
| Income from continuing operations before income taxes | 607 | 614 | 755 | 505 | 409 | (1,949) | 941 |
| Benefit from (provision for) income taxes | 2 | — | (141) | (187) | — | — | (326) |
| Net income | 609 | 614 | 614 | 318 | 409 | (1,949) | 615 |
| Net income attributable to noncontrolling interests | — | — | — | — | — | (2) | (2) |
| Net income attributable to redeemable noncontrolling interests | — | — | — | — | — | (4) | (4) |
| Net income available to Discovery Communications, Inc. | $609 | $614 | $614 | $ 318 | $ 409 | $ (1,955) | $ 609 |

39

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

Condensed Consolidating Statement of Operations
Six Months Ended June 30, 2013
(in millions)

| | Discovery | DCH | DCL | Non-Guarantor Subsidiaries of DCL | Other Non-Guarantor Subsidiaries of Discovery | Reclassifications and Eliminations | Discovery and Subsidiaries |
|---|---|---|---|---|---|---|---|
| Revenues | $— | $— | $927 | $ 1,701 | $ — | $ (5 ) | $ 2,623 |
| Costs of revenues, excluding depreciation and amortization | — | — | 226 | 557 | — | (4 ) | 779 |
| Selling, general and administrative | 9 | 2 | 121 | 628 | — | (1 ) | 759 |
| Depreciation and amortization | — | — | 18 | 92 | — | — | 110 |
| Restructuring charges | — | — | — | 10 | — | — | 10 |
| Total costs and expenses | 9 | 2 | 365 | 1,287 | — | (5 ) | 1,658 |
| Operating (loss) income | (9 ) | (2 ) | 562 | 414 | — | — | 965 |
| Equity in earnings of subsidiaries | 537 | 539 | 324 | — | 358 | (1,758 ) | — |
| Interest expense | — | — | (145 ) | (3 ) | — | — | (148 ) |
| Income (loss) from equity investees, net | — | — | 2 | (11 ) | — | — | (9 ) |
| Other (expense) income, net | — | — | (54 ) | 104 | — | — | 50 |
| Income from continuing operations before income taxes | 528 | 537 | 689 | 504 | 358 | (1,758 ) | 858 |
| Benefit from (provision for) income taxes | 3 | — | (150 ) | (180 ) | — | — | (327 ) |
| Net income available to Discovery Communications, Inc. | $531 | $537 | $539 | $ 324 | $ 358 | $ (1,758 ) | $ 531 |

40

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

Condensed Consolidating Statement of Comprehensive Income
Three Months Ended June 30, 2014
(in millions)

| | Discovery | DCH | DCL | Non-Guarantor Subsidiaries of DCL | Other Non-Guarantor Subsidiaries of Discovery | Reclassifications and Eliminations | Discovery and Subsidiaries |
|---|---|---|---|---|---|---|---|
| Net income | $379 | $382 | $382 | $ 209 | $ 254 | $ (1,222 ) | $ 384 |
| Other comprehensive loss, net of tax: | | | | | | | |
| Currency translation adjustments | (33 ) | (33 ) | (33 ) | (35 ) | (22 ) | 123 | (33 ) |
| Derivative and market value adjustments | (8 ) | (8 ) | (8 ) | (1 ) | (5 ) | 22 | (8 ) |
| Comprehensive income | 338 | 341 | 341 | 173 | 227 | (1,077 ) | 343 |
| Comprehensive income attributable to noncontrolling interests | — | — | — | — | — | (2 ) | (2 ) |
| Comprehensive income attributable to redeemable noncontrolling interests | (1 ) | (1 ) | (1 ) | (1 ) | (1 ) | 1 | (4 ) |
| Comprehensive income attributable to Discovery Communications, Inc. | $337 | $340 | $340 | $ 172 | $ 226 | $ (1,078 ) | $ 337 |

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

Condensed Consolidating Statement of Comprehensive Income
Three Months Ended June 30, 2013
(in millions)

| | Discovery | DCH | DCL | Non-Guarantor Subsidiaries of DCL | Other Non-Guarantor Subsidiaries of Discovery | Reclassifications and Eliminations | Discovery and Subsidiaries |
|---|---|---|---|---|---|---|---|
| Net income | $300 | $304 | $306 | $ 167 | $ 203 | $ (980 ) | $ 300 |
| Other comprehensive (loss) income, net of tax: | | | | | | | |
| Currency translation adjustments | (48 ) | (48 ) | (48 ) | (47 ) | (32 ) | 175 | (48 ) |
| Derivative and market value adjustments | 2 | 2 | 2 | 8 | 1 | (13 ) | 2 |
| Comprehensive income | 254 | | | | | | |