LIBERTY INTERACTIVE CORPORATION

qurate RETAIL, INC.

2017 ANNUAL REPORT

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qurate
RETAIL, INC.

Certain statements in this Annual Report constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding our business, product and marketing strategies; new service offerings; the expected benefits of our recent transactions involving GCI Liberty, Inc. ("GCI Liberty") (including the split-off of GCI Liberty); projected synergies and savings from acquisitions; our ability to integrate newly acquired businesses; our anticipated future performance and share repurchases; revenue growth at QVC, Inc.; the recoverability of our goodwill and other long-lived assets; our projected sources and uses of cash; and the anticipated impact of certain contingent liabilities related to legal and tax proceedings and other matters arising in the ordinary course of business. In particular, statements in our "Letter to Shareholders" and under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Quantitative and Qualitative Disclosures About Market Risk" contain forward-looking statements. Where, in any forward-looking statement, we express an expectation or belief as to future results or events, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the expectation or belief will result or be achieved or accomplished. The following include some but not all of the factors that could cause actual results or events to differ materially from those anticipated:

- customer demand for our products and services and our ability to anticipate customer demand and to adapt to changes in demand;
- competitor responses to our products and services;
- increased digital TV penetration and the impact on channel positioning of our programs;
- the levels of online traffic to our businesses' websites and our ability to convert visitors into consumers or contributors;
- uncertainties inherent in the development and integration of new business lines and business strategies;
- our future financial performance, including availability, terms and deployment of capital;
- our ability to successfully integrate and recognize anticipated efficiencies and benefits from the businesses we acquire;
- the cost and ability of shipping companies, suppliers and vendors to deliver products, equipment, software and services;
- the outcome of any pending or threatened litigation;
- availability of qualified personnel;
- changes in, or failure or inability to comply with, government regulations, including, without limitation, regulations of the Federal Communications Commission, and adverse outcomes from regulatory proceedings;
- changes in the nature of key strategic relationships with partners, distributors, suppliers and vendors;
- domestic and international economic and business conditions and industry trends;
- changes in tariffs, trade policy and trade relations following the 2016 U.S. presidential election and the vote by the U.K. to exit from the European Union;
- consumer spending levels, including the availability and amount of individual consumer debt;
- advertising spending levels;
- changes in distribution and viewing of television programming, including the expanded deployment of personal video recorders, video on demand and Internet protocol television and their impact on home shopping programming;
- rapid technological changes;
- the regulatory and competitive environment of the industries in which we operate;
- failure to protect the security of personal information about our customers, subjecting us to potentially costly government enforcement actions or private litigation and reputational damage;
- threatened terrorist attacks, political unrest in international markets and ongoing military action around the world; and
- fluctuations in foreign currency exchange rates.

These forward-looking statements and such risks, uncertainties and other factors speak only as of the date of this Annual Report, and we expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained herein, to reflect any change in our expectations with regard thereto, or any other change in events, conditions or circumstances on which any such statement is based. When considering such forward-looking statements, you should keep in mind any risk factors identified and other cautionary statements contained in this Annual Report and in our publicly filed documents, including our most recent Forms 10-K and 10-Q. Such risk factors and statements describe circumstances which could cause actual results to differ materially from those contained in any forward-looking statement.

This Annual Report includes information concerning public companies in which we have controlling and non-controlling interests that file reports and other information with the SEC in accordance with the Securities Exchange Act of 1934, as amended. Information contained in this Annual Report concerning those companies has been derived from the reports and other information filed by them with the SEC. If you would like further information about these companies, the reports and other information they file with the SEC can be accessed on the Internet website maintained by the SEC at www.sec.gov. Those reports and other information are not incorporated by reference in this Annual Report.

LETTER TO SHAREHOLDERS

Dear Fellow Shareholders,

This will be the last annual letter about Liberty Interactive. As you read this, we have already completed the split-off and created two asset-backed stocks: Qurate Retail, Inc.,[1] herein referred to as Qurate, and GCI Liberty. We are pleased to now have two focused stocks that we believe will provide real value for our shareholders by:

- Reducing the tracking stock discounts at GCI Liberty and Qurate
- Providing greater flexibility for future acquisitions and transactions
- Creating efficient and attractive currencies for management compensation and retention

INTRODUCING QURATE

With the closing of the HSNi acquisition and the GCI transactions, we decided it was the right time for a new brand narrative for our former QVC Group. We are proud to introduce the Qurate Retail Group, encompassing QVC, HSN, zulily and the Cornerstone Brands. Together, Qurate Retail Group is a collective of like-minded businesses that believe in a third way to shop – beyond traditional brick and mortar stores and big scale, transactional ecommerce.

- Our third way to shop is designed for consumers who crave engaging shopping experiences over impersonal transactions. Every facet of our business is in service to them, with a mission that reinforces their passions and values.
- We are a select group of leading retail brands that present customers with curated collections of unique products made personal and relevant by the power of storytelling – reaching them through distinctive video platforms and other touchpoints tailored just for them. And our connection with them ensures we evolve with them, fostering loyalty, innovation, and growth.
- We'll let others fight over selling commodity products at the cheapest price with the fastest delivery. We'll focus on bringing joy and inspiration, daily.
- We are Qurate Retail Group, offering the most engaging shopping experiences that combine the best of retail, media and social.

1) Qurate Retail, Inc. includes the Qurate Retail Group portfolio of brands, as well as minority interests in ILG, FTD, and various green energy investments. Qurate Retail Group is comprised of eight leading retail brands - QVC, HSN, zulily, Ballard Designs, Frontgate, Garnet Hill, Grandin Road, and Improvements.

We are excited for this new chapter and will build on the strong momentum we have entering 2018.

For QVC, 2017 was a tale of two halves. As expected, the first half of the year proved challenging as we focused on righting the ship. In last year's letter we laid out four key priorities to improve sales, upon which we made significant progress.

1. Achieve more consistent and balanced growth across categories; offer a more diverse mix of exclusive and proprietary brands and key items at great values, along with compelling and entertaining programming.

At QVC US, we:

- Grew revenue in all categories, except jewelry
- Introduced 528 new brands in 2017, a 27% increase year-over-year
- Successfully offered exciting new international brands in the US, especially in the handbag category

2. Re-accelerate new customer acquisition
   - Grew QVC US new customers 5% in Q4 2017, the second-largest quarterly new customer class ever
   - Gained these new customers from the following channels
     - o 47% mobile
     - o 37% PC
     - o 17% phone
   - Increased the quality of these new customers with nearly 40% retention, as compared to 35% in 2013
3. Extend the ways we reach and serve both current and prospective customers on broadcast and digital platforms
   - Expanded carriage and live programming hours for QVC2 and Beauty iQ
   - Increased daily minutes per viewer
   - Continued to utilize Facebook live with video views +220% and minutes viewed +360% year-over-year in Q4-17
4. Continue to reduce costs to fund innovation
   - Identified cost savings in freight, bad debt management, headcount and consolidating global business services

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LETTER TO SHAREHOLDERS, CONTINUED

This focus enabled our return to revenue growth in Q3 of 2017 and our strong finish in Q4. While we experienced a difficult four quarters during parts of 2016 and 2017, we learned a lot and believe our domestic business is well-positioned with unique characteristics that will drive success in the long term. Not to be overlooked, our international markets continued to perform extremely well with all markets generating local currency growth for the year.

We were pleased to close the acquisition of HSNi on December 29, 2017. The combination further strengthens Qurate Retail Group's position as #1 in video commerce, #3 in ecommerce in North America and #3 in mobile commerce in the US, according to Internet Retailer. We are excited to learn from HSN's strengths in areas like Shop by Remote, health and crafting categories, and product collaborations. Post announcement of this transaction and with further due diligence, we were able to greatly increase our projected synergies and believe we will be able to achieve savings of $200 to 220 million, which excludes revenue and capex synergies.

zulily also faced a tale of two halves in 2017. We reached an inflection point in the third quarter and added 400k new names, which was the first significant increase since 2014. This momentum continued, and we ended the year with a record 5.8 million customers. This success was driven by a shift in marketing focus from member sign ups to driving customer purchases and remarketing to existing members and customers. We believe this new marketing approach has paid off, and zulily's new name growth will continue to power revenue results.

In the creation of Qurate, we also evaluated our leadership structure. We are pleased to announce that Greg Maffei has become Executive Chairman, and Mike George the President and CEO of Qurate. Mike's twelve years at the helm established QVC as the leader in video commerce and steered the company through a challenging retail environment while transitioning into the mobile era. To support Mike, Steve Hofmann has been appointed President of QVC US, moving from his leadership role of QVC International, a position which we are currently looking to fill. Mike Fitzharris has taken on the President role at HSN, relocating from QVC Japan, and Claire Spofford, who previously led Garnet Hill, is now President of Cornerstone. Gregg Bertoni has become CEO of QVC Japan, transitioning from his role at QVC China. At zulily, Darrell Cavens has transitioned to become President of New Ventures for Qurate Retail Group, with Lori Twomey, zulily's Chief Merchant, leading zulily as interim President as we look for a new President. A lot of role changes but a testament to the strong, deep team we have in place throughout the ecosystem, and we welcome the opportunity to bring new folks into the team.

GCI LIBERTY

Now onto the other new asset-backed stock, GCI Liberty. We recently completed the acquisition and split-off of GCI, the leading telecommunications provider in Alaska. GCI has an enviable position in the Alaskan market being the leader in metro and long-haul fiber, an increasing broadband footprint and offering a true quad bundle. GCI's wireless network covers 97% of Alaskans, the broadest coverage in the state, which represents real potential as it currently holds about one third market share. The cable systems pass over 90% of Alaskan households with over 50% data penetration of homes passed. Unique to GCI is its relatively equal split between consumer and business services. GCI is focused on improving cash flow with the simplification and consolidation of billing services, increasing penetration of the quad play offering, declining capex and, of course, approximately $370m in NOLs. Further, in structuring the split-off, we appreciated the strategic fit with our former Liberty Broadband and Charter investments. Our former Charter and Liberty Broadband investments generated an impressive 16% return in 2017.

As mentioned at our investor meeting in November 2017, the discount to net asset value persists at GCI Liberty and provides an attractive option to invest in Charter. We believe the creation of the asset-backed GCI Liberty will help address this discount.

LOOKING AHEAD

We are pleased to now move forward as Qurate and GCI Liberty. We ended 2017 on a very positive note that provides good momentum into 2018. With the new Qurate, we will see increased cash flow and expect to allocate approximately $1 billion in 2018 toward share repurchases. We think this provides an attractive return of capital to shareholders while also giving us the ability to evaluate new opportunities.

We look forward to seeing many of you at our Qurate Retail Group investor day at QVC's headquarters in West Chester, Pennsylvania on May 22nd and at this year's annual investor meeting, which will take place on Wednesday, November 14th at the TimesCenter at 242 West 41st Street in New York City.

We appreciate you sticking with us as we worked through these transformative transactions and actions with our focus on long-term value creation, and we look forward to your ongoing support of Qurate and GCI Liberty.

Very truly yours,

Mike George

Michael A. George
President & Chief Executive Officer

Gregory B. Maffei
Executive Chairman of the Board

John C. Malone

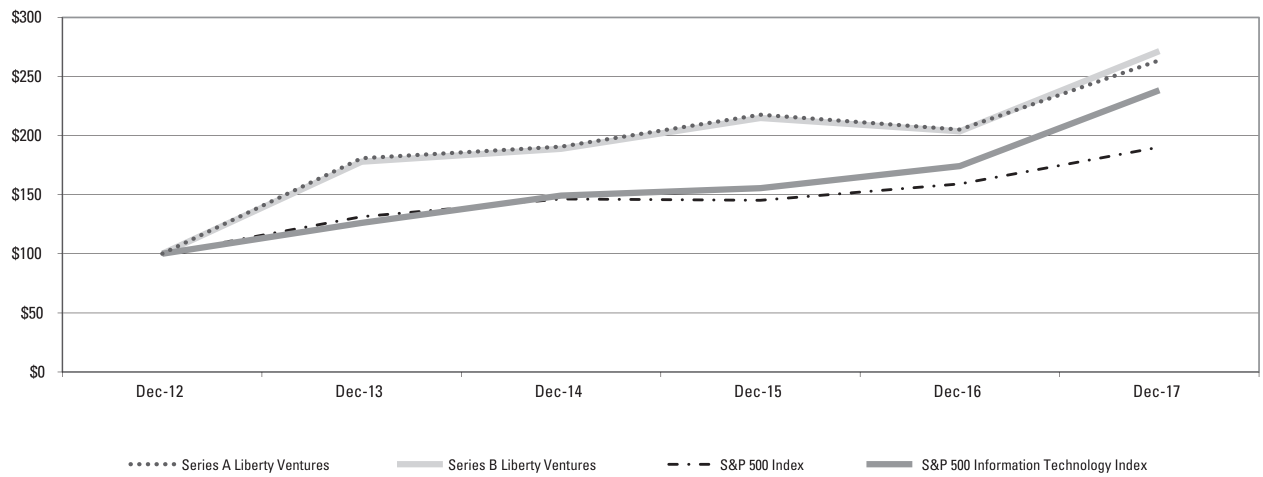
John C. Malone
Former Chairman of the Board

STOCK PERFORMANCE

The following graph compares the percentage change in the cumulative total stockholder return on the Series A and Series B Liberty Ventures common stock from December 31, 2012 through December 31, 2017, to the percentage change in the cumulative total return on the S&P 500 Index and the S&P 500 Information Technology Index. Liberty Ventures Group performance includes (i) the spin-off of Liberty TripAdvisor Holdings, Inc. on August 27, 2014, assuming a sale of the resulting Liberty TripAdvisor shares on the one-year anniversary of the spin-off and reinvestment of the proceeds in Liberty Ventures common stock, (ii) the spin-off of CommerceHub, Inc. on July 22, 2016, assuming a sale of the resulting CommerceHub shares on the one-year anniversary of the spin-off and reinvestment of the proceeds in Liberty Ventures common stock, and (iii) the split-off of Liberty Expedia Holdings, Inc. on November 4, 2016, assuming a sale of the resulting Liberty Expedia shares on the one-year anniversary of the split-off and reinvestment of the proceeds in Liberty Ventures common stock.

As a result of the transactions with GCI Liberty, Inc. on March 9, 2018, Liberty Ventures common stock shares are no longer outstanding and are no longer publicly traded.

Liberty Ventures Common Stock vs. S&P 500 and S&P 500 Information Technology Indices
12/31/12 to 12/31/17

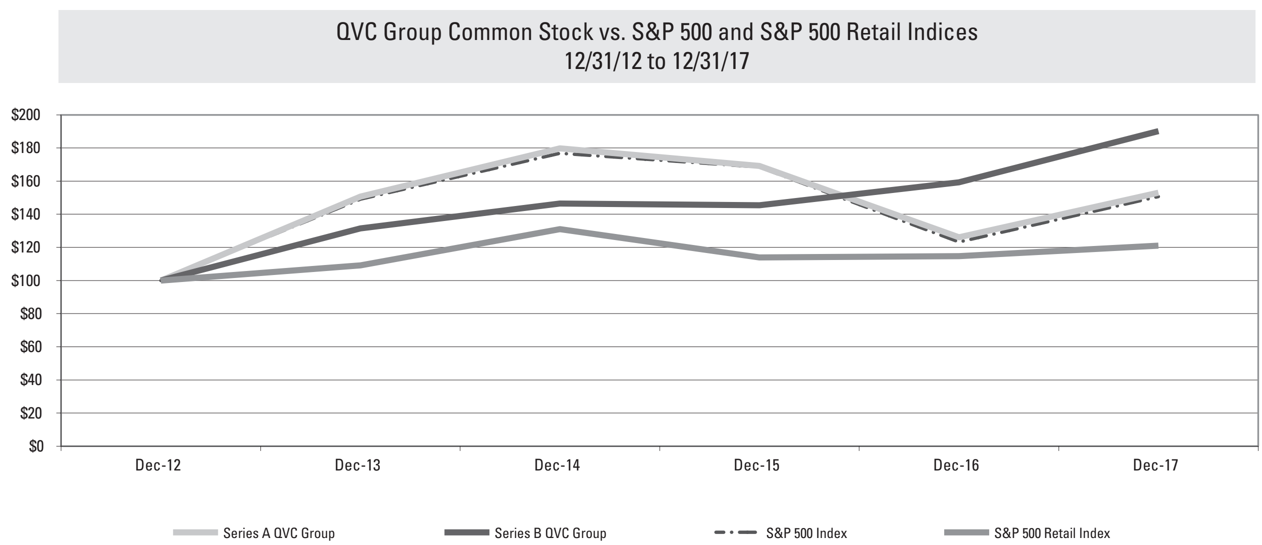


	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017
Series A Liberty Ventures	$100.00	$180.92	$190.73	$217.72	$205.11	$263.76
Series B Liberty Ventures	$100.00	$177.92	$188.83	$214.89	$203.56	$271.47
S&P 500 Index	$100.00	$131.47	$146.45	$145.39	$159.25	$190.17
S&P 500 Information Technology Index	$100.00	$126.23	$149.19	$155.55	$174.19	$238.49

Note: Trading data for all Series B shares is limited as they are thinly traded.

STOCK PERFORMANCE

The following graph compares the percentage change in the cumulative total stockholder return on Series A and Series B QVC Group common stock (formerly referred to as the Series A and Series B Liberty Interactive common stock) from December 31, 2012 through December 31, 2017, to the percentage change in the cumulative total return on the S&P 500 Index and the S&P 500 Retail Index. QVC Group performance includes the distribution of Series A and Series B Liberty Ventures shares to QVC Group shareholders as part of the reattribution transaction (ex-dividend date of October 15, 2014), assuming a sale of the resulting Liberty Ventures shares on the one-year anniversary of the reattribution and reinvestment of the proceeds in QVC Group common stock.



	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017
Series A QVC Group	$100.00	$149.14	$176.74	$168.55	$123.27	$150.66
Series B QVC Group	$100.00	$150.72	$179.74	$169.19	$126.15	$152.94
S&P 500 Index	$100.00	$131.47	$146.45	$145.39	$159.25	$190.17
S&P 500 Retail Index	$100.00	$109.10	$130.97	$113.89	$114.72	$121.00

Note: Trading data for all Series B shares is limited as they are thinly traded.

INVESTMENT SUMMARY

Based on publicly available information as of March 8, 2018 — qurateretail.com/overview/asset-list.html

The following table sets forth some of Qurate Retail, Inc.'s (formerly Liberty Interactive) assets that are held directly and indirectly through partnerships, joint ventures, common stock investments and/or instruments convertible into common stock. Ownership percentages in the table are approximate and, where applicable, assume conversion to common stock by Qurate Retail, Inc. and, to the extent known by Qurate Retail, Inc., other holders. In some cases, Qurate Retail, Inc.'s interest may be subject to buy/sell procedures, repurchase rights or dilution.

QURATE RETAIL, INC.			
ENTITY	**DESCRIPTION OF OPERATING BUSINESS**	**SHARE COUNT**(1) *(in millions)*	**OWNERSHIP**(2)
Brit Media, Inc. (Brit + Co)	Online lifestyle platform offering content, e-classes and eCommerce to millennial women.	N/A	7%
FTD Companies, Inc. (NASDAQ: FTD)	A premier floral and gifting company with a presence in the United States, Canada, the United Kingdom and the Republic of Ireland.	10.2	37%
HSN, Inc.	An interactive multi-channel retailer offering customers innovative and differentiated experiences through various platforms including television, online, mobile, catalogs and in retail and outlet stores through its two primary businesses, HSN and Cornerstone.	N/A	100%

QURATE RETAIL, INC., CONTINUED			
ENTITY	DESCRIPTION OF OPERATING BUSINESS	SHARE COUNT[1] *(in millions)*	OWNERSHIP[2]
ILG, Inc. (NASDAQ: ILG)	A leading provider of professionally delivered vacation experiences, offering its owners, members, and guests access to an array of benefits and services, as well as world-class destinations through its international portfolio of resorts and clubs.	16.6	13%
Liberty Israel Venture Fund II, LLC	Investment fund focused on Israeli technology companies.	N/A	80%
Quid, Inc.	Software company that combines natural language processing and visualization techniques to make it easy to analyze very large amounts of data in a relatively short amount of time.	N/A	10%
QVC, Inc.	QVC combines the best of retail, media and social to create an engaging shopping experience. QVC engages millions of shoppers in a journey of discovery through an ever-changing collection of familiar brands and fresh new products, from home and fashion to beauty, electronics and jewelry.	N/A	100%
zulily, llc	A leading pure-play online retailer focused on delivering a boutique experience every day—thousands of unique up-and-coming brands alongside top brands every day, all at incredible prices. zulily offers a highly personalized experience through its innovative technology and always-fresh curated collection of products for the whole family, including clothing, home décor, toys, gifts and more.	N/A	100%

1) Applicable only for publicly-traded entities.
2) Represents undiluted ownership interest.

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

Market Information

Each series of the common stock of Liberty Interactive Corporation ("Liberty," the "Company," "we," "us" and "our") trades on the Nasdaq Global Select Market. Our Series A and Series B QVC Group common stock trade under the symbols "QVCA" and "QVCB," respectively. Our Series A and Series B Liberty Ventures common stock trade under the symbols "LVNTA" and "LVNTB," respectively. Our Series B QVC Group common stock and Series B Liberty Ventures common stock are not actively traded. In connection with the Expedia Holdings Split-Off (as defined below), Liberty redeemed (i) 0.4 of each outstanding share of Liberty's Series A and Series B Liberty Ventures common stock for 0.4 of a share of Expedia Holdings Series A and Series B common stock, respectively, at 5:00 p.m., New York City time, on November 4, 2016. Accordingly, the high and low sales prices of the Series A and Series B Liberty Ventures common stock have been retroactively restated in the table below. Each series of our common stock trades on the Nasdaq Global Select Market. The following table sets forth the range of high and low sales prices of shares of our common stock for the years ended December 31, 2017 and 2016.

	QVC Group			
	Series A (QVCA)		Series B (QVCB)	
	High	Low	High	Low
2016				
First quarter	$ 26.97	22.51	30.62	24.40
Second quarter	$ 27.25	23.01	26.98	24.02
Third quarter	$ 27.06	18.42	26.69	19.00
Fourth quarter	$ 22.33	17.88	24.10	17.78
2017				
First quarter	$ 20.88	17.24	22.05	17.62
Second quarter	$ 24.94	19.81	24.93	19.40
Third quarter	$ 26.00	20.90	25.10	21.14
Fourth quarter	$ 26.79	20.79	26.79	20.93

	Liberty Ventures			
	Series A (LVNTA)		Series B (LVNTB)	
	High	Low	High	Low
2016				
First quarter	$ 40.22	29.24	36.83	33.14
Second quarter	$ 36.55	30.97	36.72	34.36
Third quarter (July 1 - July 22)	$ 38.59	32.76	37.87	37.33
Third quarter (July 23 - September 30) (1)	$ 40.80	36.09	39.89	38.05
Fourth quarter (October 1 - November 4)	$ 41.37	38.40	41.57	39.29
Fourth quarter (November 5 - December 31) (2)	$ 41.74	36.54	41.94	36.93
2017				
First quarter	$ 45.17	36.69	46.61	38.61
Second quarter	$ 55.93	44.13	56.33	53.33
Third quarter	$ 62.41	50.56	59.88	51.80
Fourth quarter	$ 59.90	52.43	54.30	54.30

(1) As discussed in Part I of this report, the CommerceHub Spin-Off (as defined below) was effected on July 22, 2016 as a pro-rata dividend of shares of CommerceHub to the stockholders of Liberty's Series A and Series B Liberty Ventures common stock.

(2) As discussed in Part I of this report, the Expedia Holdings Split-Off was effected on November 4, 2016 as a redemption of Liberty's Series A and Series B Liberty Ventures common stock for shares of Expedia Holdings.

Holders

As of January 31, 2018, there were 2,742 and 85 record holders of our Series A and Series B QVC Group common stock, respectively, and 991 and 61 record holders of our Series A and Series B Liberty Ventures common stock, respectively. The foregoing numbers of record holders do not include the number of stockholders whose shares are held nominally by banks, brokerage houses or other institutions, but include each such institution as one shareholder.

Dividends

We have not paid any cash dividends on our common stock, and we have no present intention of so doing. Payment of cash dividends, if any, in the future will be determined by our board of directors in light of our earnings, financial condition and other relevant considerations. See "Management's Discussion and Analysis of Financial Condition and Results of Operation – Liquidity and Capital Resources."

Securities Authorized for Issuance Under Equity Compensation Plans

Information required by this item is incorporated by reference to our definitive proxy statement for our 2018 Annual Meeting of Stockholders that will be filed with the Securities and Exchange Commission on or before April 30, 2018.

Purchases of Equity Securities by the Issuer

Share Repurchase Programs

On several occasions our board of directors has authorized a share repurchase program for our Series A and Series B QVC Group common stock. On each of May 5, 2006, November 3, 2006 and October 30, 2007 our board authorized the repurchase of $1 billion of Series A and Series B Liberty Interactive common stock for a total of $3 billion. These previous authorizations remained effective following the LMC Split-Off, notwithstanding the fact that the Liberty Interactive common stock ceased to be a tracking stock during the period following the LMC Split-Off (as defined below) and prior to the creation of our Liberty Ventures common stock in August 2012. On February 22, 2012 the board authorized the repurchase of an additional $700 million of Series A and Series B Liberty Interactive common stock. Additionally, on each of October 30, 2012 and February 27, 2014, the board authorized the repurchase of an additional $1 billion of Series A and Series B Liberty Interactive common stock. In connection with the TripAdvisor Holdings Spin-Off (as defined below) during August 2014, the board authorized $350 million for the repurchase of either the Liberty Interactive or Liberty Ventures tracking stocks. In October 2014, the board authorized the repurchase of an additional $650 million of Series A and Series B Liberty Ventures common stock. In August 2015, the board authorized the repurchase of an additional $1 billion of Series A or Series B QVC Group common stock. In addition, on October 26, 2016, the board authorized the repurchase of an additional $300 million of either the QVC Group common stock or the Liberty Ventures common stock. On September 19, 2017, the board authorized the repurchase of an additional $1 billion of Series A QVC Group common stock.

A summary of the repurchase activity for the three months ended December 31, 2017 is as follows:

	Series A QVC Group Common Stock (QVCA)			
Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be purchased Under the Plans or Programs
October 1 - 31, 2017	7,736,267	$ 23.03	7,736,267	$ 822 million
November 1 - 30, 2017	5,901,315	$ 23.23	5,901,315	$ 684 million
December 1 - 31, 2017	—	$ —	—	$ 684 million
Total	13,637,582		13,637,582	

3,135 shares of Series A QVC Group common stock and zero shares of Series A Liberty Ventures common stock were surrendered by certain of our officers and employees to pay withholding taxes and other deductions in connection with the vesting of their restricted stock during the three months ended December 31, 2017.

Selected Financial Data.

The following tables present selected historical information relating to our financial condition and results of operations for the past five years. Certain prior period amounts have been reclassified for comparability with the current year presentation. The following data should be read in conjunction with our consolidated financial statements.

	December 31,				
	2017	2016	2015	2014	2013
	amounts in millions				
Summary Balance Sheet Data:					
Cash and cash equivalents	$ 903	825	2,449	2,306	902
Investments in available-for-sale securities and other cost investments	$ 2,363	1,922	1,353	1,224	1,313
Investment in affiliates, accounted for using the equity method	$ 309	581	714	1,119	760
Investment in Liberty Broadband measured at fair value	$ 3,635	3,161	—	—	—
Intangible assets not subject to amortization (1)	$ 11,011	9,354	9,485	7,893	8,383
Noncurrent assets of discontinued operations (2) (3)	$ —	—	927	514	7,572
Total assets	$ 24,122	20,355	21,180	18,598	24,642
Long-term debt	$ 7,553	7,166	7,481	7,062	6,072
Deferred income tax liabilities	$ 2,803	3,636	3,217	2,681	2,794
Noncurrent liabilities of discontinued operations (2) (3)	$ —	—	285	140	1,584
Total equity (1)	$ 10,083	6,861	6,875	5,780	11,435
Noncontrolling interest in equity of subsidiaries (2)	$ 99	89	88	107	4,499

	Years ended December 31,				
	2017	2016	2015	2014	2013
	amounts in millions, except per share amounts				
Summary Statement of Operations Data:					
Revenue	$ 10,404	10,647	9,989	10,499	10,219
Operating income (loss)	$ 1,043	968	1,116	1,188	1,136
Interest expense	$ (355)	(363)	(360)	(387)	(380)
Share of earnings (losses) of affiliates, net	$ (200)	(68)	(178)	(19)	2
Realized and unrealized gains (losses) on financial instruments, net	$ 618	1,175	114	(57)	(22)
Gains (losses) on transactions, net (1)	$ 410	9	110	74	(1)
Earnings (loss) from continuing operations (4):					
QVC Group common stock	$ 1,254	511	674	574	500
Liberty Ventures common stock	1,233	743	(43)	(36)	27
	$ 2,487	1,254	631	538	527
Basic earnings (loss) from continuing operations attributable to Liberty Interactive Corporation stockholders per common share:					
Series A and Series B QVC Group common stock	$ 2.71	0.99	1.35	1.10	0.88
Series A and Series B Liberty Ventures common stock	$ 14.34	5.54	(0.36)	(0.43)	0.37
Diluted earnings (loss) from continuing operations attributable to Liberty Interactive Corporation stockholders per common share:					
Series A and Series B QVC Group common stock	$ 2.70	0.98	1.33	1.09	0.86
Series A and Series B Liberty Ventures common stock (3)	$ 14.17	5.49	(0.36)	(0.43)	0.36

(1) On December 29, 2017, the Company acquired the remaining approximately 62% of HSNi it did not already own in an all-stock transaction, making HSNi a wholly-owned subsidiary, attributed to the QVC Group tracking stock group. In conjunction with the application of acquisition accounting, the Company recorded a full step up in basis of HSNi along with a gain between our historical basis and the fair value of our interest in HSNi.

(2) On December 11, 2012, the Company acquired approximately 4.8 million additional shares of common stock of TripAdvisor, Inc. ("TripAdvisor") (an additional 4% equity ownership interest), for $300 million, along with the right to control the vote of the shares of TripAdvisor's common stock and class B common stock the Company owns. Following the transaction the Company owned approximately 22% of the equity and 57% of the total votes of all classes of TripAdvisor common stock. On August 27, 2014, the Company completed the TripAdvisor Holdings Spin-Off. The consolidated financial statements of Liberty have been prepared to reflect TripAdvisor Holdings as discontinued operations. However, the noncontrolling interest attributable to our former ownership interest in TripAdvisor is included in the noncontrolling interest line item in the consolidated balance sheet from the date of acquisition until the date of completion of the TripAdvisor Holdings Spin-Off.

(3) The Expedia Holdings Split-Off was effected on November 4, 2016 as a split-off through the redemption of a portion of Liberty's Series A and Series B Liberty Ventures common stock for shares of Expedia Holdings (as defined below). The consolidated financial statements of Liberty have been prepared to reflect Liberty's interest in Expedia (as defined below) as a discontinued operation.

(4) Includes earnings (losses) from continuing operations attributable to the noncontrolling interests of $46 million, $39 million, $42 million, $40 million and $45 million for the years ended December 31, 2017, 2016, 2015, 2014, and 2013, respectively.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis provides information concerning our results of operations and financial condition. This discussion should be read in conjunction with our accompanying consolidated financial statements and the notes thereto. Additionally, see note 3 in the accompanying consolidated financial statements for an overview of new accounting standards that we have adopted or that we plan to adopt that have had or may have an impact on our financial statements.

Overview

We own controlling and non-controlling interests in a broad range of video and online commerce companies. Our largest business and reportable segment, is QVC, Inc. (“QVC”). QVC markets and sells a wide variety of consumer products in the United States and several foreign countries, primarily by means of its televised shopping programs and via the Internet through its domestic and international websites and mobile applications. On December 29, 2017, we acquired the approximately 62% of HSN, Inc. (“HSNi”) we did not already own in an all-stock transaction (the “Merger”) making HSNi a wholly-owned subsidiary, attributed to the QVC Group. HSNi has two main operating segments: its televised shopping business “HSN” and its catalog retail business “Cornerstone.” HSN is a reportable segment, and Cornerstone is included in the “Corporate and other” reportable segment. QVC and HSN are referred to collectively as the “Televised Shopping Businesses.” On October 1, 2015, we acquired zulily, inc. (“zulily”) (now known as zulily, llc), an online retailer offering customers a fun and entertaining shopping experience with a fresh selection of new product styles launched every day, which is also a reportable segment. See note 5 of the accompanying consolidated financial statements for further details on the acquisitions of zulily and HSNi.

Our Corporate and other category includes entire or majority interests in consolidated subsidiaries, which operate online commerce businesses in a broad range of retail categories, ownership interests in unconsolidated businesses and corporate expenses. These consolidated subsidiaries include Evite, Inc. (“Evite”), Backcountry.com, Inc. ("Backcountry") (through June 30, 2015, see note 6 of the accompanying consolidated financial statements), CommerceHub, Inc. (“CommerceHub”) (through July 22, 2016, see note 6 of the accompanying consolidated financial statements) and Bodybuilding.com, LLC ("Bodybuilding") (through November 4, 2016, see note 6 of the accompanying consolidated financial statements) (collectively, the “Digital Commerce businesses”), and Cornerstone. Evite is an online invitation and social event planning service on the web. Backcountry operates websites offering sports gear and clothing for outdoor and active individuals in a variety of categories. CommerceHub provides a cloud-based platform for online retailers and their suppliers (manufacturers and distributors) to sell products to consumers without physically owning inventory, or managing the fulfillment of those products. Bodybuilding manages websites related to sports nutrition, bodybuilding and fitness. We also hold ownership interests in FTD Companies, Inc. (“FTD”) and LendingTree, Inc. (“LendingTree”), which we account for as equity method investments; an interest in Liberty Broadband Corporation (“Liberty Broadband”), which we account for at fair value; and we maintain investments and related financial instruments in public companies such as Charter Communications, Inc. (“Charter”), ILG, Inc. (“ILG”) and Time Warner Inc. (“Time Warner”), which are accounted for at their respective fair market values.

Tracking stock is a type of common stock that the issuing company intends to reflect or "track" the economic performance of a particular business or "group," rather than the economic performance of the company as a whole. Liberty has two tracking stocks, QVC Group common stock and Liberty Ventures common stock, which are intended to track and reflect the economic performance of Liberty’s QVC Group and Ventures Group, respectively. While the QVC Group and the Ventures Group have separate collections of businesses, assets and liabilities attributed to them, no group is a separate legal entity and therefore no group can own assets, issue securities or enter into legally binding agreements. Holders of tracking stock have no direct claim to the group's stock or assets and are not represented by separate boards of directors. Instead, holders of tracking stock are stockholders of the parent corporation, with a single board of directors and subject to all of the risks and liabilities of the parent corporation.

The term "Ventures Group" does not represent a separate legal entity, rather it represents those businesses, assets and liabilities that have been attributed to that group. The Ventures Group consists of our businesses not included in the QVC Group including Evite and our interests in Liberty Broadband, LendingTree, FTD, investments in Charter and ILG, as well as cash in the amount of approximately $573 million (at December 31, 2017), including subsidiary cash. The

Ventures Group also has attributed to it certain liabilities related to our Exchangeable Debentures and certain deferred tax liabilities. The Ventures Group is primarily focused on the maximization of the value of these investments and investing in new business opportunities.

On April 4, 2017, Liberty entered into an Agreement and Plan of Reorganization (as amended, the "GCI Reorganization Agreement" and the transactions contemplated thereby, the "Transactions") with General Communication, Inc. ("GCI"), an Alaska corporation, and Liberty Interactive LLC, a Delaware limited liability company and a direct wholly-owned subsidiary of Liberty ("LI LLC"), whereby Liberty will acquire GCI through a reorganization in which certain Ventures Group assets and liabilities will be contributed to GCI Liberty (as defined below) in exchange for a controlling interest in GCI Liberty. Liberty and LI LLC will contribute to GCI Liberty its entire equity interest in Liberty Broadband and Charter, along with, subject to certain exceptions, Liberty's entire equity interests in LendingTree, together with the Evite operating business and certain other assets and liabilities, in exchange for (i) the issuance to LI LLC of a number of shares of new GCI Liberty Class A Common Stock and a number of shares of new GCI Liberty Class B Common Stock equal to the number of outstanding shares of Series A Liberty Ventures common stock and Series B Liberty Ventures common stock outstanding on the closing date of the Contribution, respectively, (ii) cash and (iii) the assumption of certain liabilities by GCI Liberty (the "Contribution").

Liberty will then effect a tax-free separation of its controlling interest in the combined company (which has since been renamed GCI Liberty, Inc. ("GCI Liberty")) to the holders of Liberty Ventures common stock, distributing one share of the corresponding class of new GCI Liberty common stock for each share of Liberty Ventures common stock held, in full redemption of all outstanding shares of such stock, leaving QVC Group common stock as the only outstanding common stock of Liberty. On the business day prior to the Contribution, holders of reclassified GCI Class A Common Stock and reclassified GCI Class B Common Stock each will receive (i) 0.63 of a share of new GCI Liberty Class A Common Stock and (ii) 0.20 of a share of new GCI Liberty Series A Cumulative Redeemable Preferred Stock (the "GCI Liberty preferred stock") in exchange for each share of their reclassified GCI stock. The exchange ratios were determined based on total consideration of $32.50 per share for existing GCI common stock, comprised of $27.50 per share in new GCI Liberty Class A Common Stock and $5.00 per share in newly issued GCI Liberty preferred stock, and a Liberty Ventures reference price of $43.65 (with no additional premium paid for shares of reclassified GCI Class B Common Stock). The GCI Liberty Series A preferred stock will accrue dividends at an initial rate of 5% per annum (which would increase to 7% in connection with a future reincorporation of GCI Liberty in Delaware) and will be redeemable upon the 21st anniversary of the closing of the Transactions.

At the closing of the Transactions, Liberty will reattribute certain assets and liabilities from the Ventures Group to the QVC Group (the "Reattribution"). The reattributed assets and liabilities are expected to include cash, Liberty's interest in ILG, FTD, certain green energy investments, LI LLC's exchangeable debentures, and certain tax benefits. Pursuant to a recent amendment to the GCI Reorganization Agreement, LI LLC's 1.75% Exchangeable Debentures due 2046 (the "1.75% Exchangeable Debentures") will not be subject to a pre-closing exchange offer and will instead be reattributed to the QVC Group, along with (i) an amount of cash equal to the net present value of the adjusted principal amount of such 1.75% Exchangeable Debentures (determined as if paid on October 5, 2023) and stated interest payments on the 1.75% Exchangeable Debentures to October 5, 2023 and (ii) an indemnity obligation from GCI Liberty with respect to any payments made by LI LLC in excess of stated principal and interest to any holder that exercises its exchange right under the terms of the debentures through October 5, 2023. The cash reattributed to the QVC Group will be funded by available cash attributed to Liberty's Ventures Group and the proceeds of a margin loan facility attributed to the Ventures Group in an initial principal amount of $1 billion. Within six months of the closing, Liberty, LI LLC and GCI Liberty will cooperate with, and reasonably assist each other with respect to, the commencement and consummation of a purchase offer (the "Purchase Offer") whereby LI LLC will offer to purchase, either pursuant to privately negotiated transactions or a tender offer, the 1.75% Exchangeable Debentures on terms and conditions (including maximum offer price) reasonably acceptable to GCI Liberty. GCI Liberty will indemnify LI LLC for each 1.75% Exchangeable Debenture repurchased by LI LLC in the Purchase Offer in an amount equal to the difference between (x) the purchase price paid by LI LLC to acquire such 1.75% Exchangeable Debenture in the Purchase Offer and (y) the sum of the amount of cash reattributed with respect to such purchased 1.75% Exchangeable Debenture in the Reattribution plus the amount of certain tax benefits attributable to such 1.75% Exchangeable Debenture so purchased. GCI Liberty's indemnity obligation with respect to payments made upon a holder's exercise of its exchange right will be eliminated as to any 1.75% Exchangeable Debentures purchased in the Purchase Offer.

Liberty will complete the Reattribution using similar valuation methodologies to those used in connection with its previous reattributions, including taking into account the advice of its financial advisor. The Transactions are expected to be consummated on March 9, 2018, subject to the satisfaction of customary closing conditions. Simultaneous with that closing, QVC Group common stock will become the only outstanding common stock of Liberty, and thus QVC Group common stock will cease to function as a tracking stock and will effectively become regular common stock, and Liberty will be renamed Qurate Retail Group, Inc., with QVC, HSNi and zulily as wholly-owned subsidiaries.

The term "QVC Group" does not represent a separate legal entity, rather it represents those businesses, assets and liabilities that have been attributed to that group. The QVC Group is primarily focused on the Televised Shopping Businesses and other online or catalog retail businesses. The QVC Group has attributed to it the remainder of our businesses and assets not attributed to the Ventures Group, including our wholly-owned subsidiaries QVC, zulily (as of October 1, 2015), and HSNi (as of December 29, 2017) as well as cash in the amount of approximately $330 million (at December 31, 2017), including subsidiary cash.

Disposals

On June 30, 2015, Liberty sold Backcountry for aggregate consideration, including assumption of debt, amounts held in escrow, and a noncontrolling interest, of approximately $350 million. The sale resulted in a $105 million gain, which is included in Gains (losses) on transactions, net in the accompanying consolidated statements of operations. Backcountry is included in the Corporate and other segment through June 30, 2015 and is not presented as a discontinued operation as the sale did not represent a strategic shift that had a major effect on Liberty's operations and financial results.

On July 22, 2016, Liberty completed its previously announced spin-off (the "CommerceHub Spin-Off") of its former wholly-owned subsidiary CommerceHub. CommerceHub is included in the Corporate and other segment through July 22, 2016 and is not presented as a discontinued operation as the CommerceHub Spin-Off did not represent a strategic shift that had a major effect on Liberty's operations and financial results.

On November 4, 2016, Liberty completed its previously announced split-off (the "Expedia Holdings Split-Off") of its former wholly-owned subsidiary Liberty Expedia Holdings, Inc. ("Expedia Holdings"). Expedia Holdings is comprised of, among other things, Liberty's former interest in Expedia, Inc. ("Expedia") and Liberty's former wholly-owned subsidiary Bodybuilding. On November 2, 2016, Expedia Holdings borrowed $350 million under a new margin loan and distributed $299 million, net of certain debt related costs, to Liberty on November 4, 2016.

Liberty viewed Expedia and Bodybuilding as separate components and evaluated them separately for discontinued operations presentation. Based on a quantitative analysis, the split-off of Liberty's interest in Expedia represented a strategic shift that had a major effect on Liberty's operations, primarily due to prior year one-time gains on transactions recognized by Expedia. Accordingly, the consolidated financial statements of Liberty have been prepared to reflect Liberty's interest in Expedia as a discontinued operation. The disposition of Bodybuilding as part of the Expedia Holdings Split-Off does not have a major effect on Liberty's historical results nor is it expected to have a major effect on Liberty's future operations. The disposition of Bodybuilding does not represent a strategic shift in Liberty's operations. Accordingly, Bodybuilding is not presented as a discontinued operation in the consolidated financial statements of Liberty. Bodybuilding is included in the Corporate and other segment through November 4, 2016.

Strategies and Challenges

Televised Shopping Businesses. The goal of QVC is to become the preeminent global multimedia shopping community for people who love to shop, and to offer a shopping experience that is as much about entertainment and enrichment as it is about buying. The goal of HSN is to become the preeminent interactive entertainment and lifestyle retailer offering a curated assortment of exclusive products and top brand names to its customers through entertainment, inspiration and personalities providing an entirely unique shopping experience. The objective for both of the Televised Shopping Businesses is to provide an integrated shopping experience that utilizes all forms of media including television, the internet and mobile devices. The Televised Shopping Businesses intend to employ several strategies to achieve these goals and objectives. Among these strategies are to (i) extend the breadth, relevance and exposure of the QVC and HSN brands; (ii) source products that represent unique quality and value; (iii) create engaging presentation content in televised programming, mobile and online; (iv) leverage customer loyalty and continue multi-platform expansion; and (v) create a compelling and differentiated customer experience. In addition, QVC expects to expand globally by leveraging its existing systems, infrastructure and skills in other countries around the world.

Future net revenue growth will primarily depend on sales growth from e-commerce and mobile platforms, additions of new customers from households already receiving the Company's television programming, and increased spending from existing customers. Future net revenue may also be affected by (i) the willingness of cable television and direct-to-home satellite system operators to continue carrying the Company's programming services; (ii) the Televised Shopping Businesses' ability to maintain favorable channel positioning, which may become more difficult due to governmental action or from distributors converting analog customers to digital; (iii) changes in television viewing habits because of personal video recorders, video-on-demand and internet video services; and (iv) general economic conditions.

Prolonged economic uncertainty in various regions of the world in which the Televised Shopping Businesses' subsidiaries and affiliates operate could adversely affect demand for our businesses' products and services since a substantial portion of our businesses' revenue is derived from discretionary spending by individuals, which typically falls during times of economic instability. Global financial markets may experience disruptions, including increased volatility and diminished liquidity and credit availability. If economic and financial market conditions in the United States ("U.S.") or other key markets, including Japan and Europe deteriorate, customers may respond by suspending, delaying, or reducing their discretionary spending. A suspension, delay or reduction in discretionary spending could adversely affect revenue. Accordingly, our businesses' ability to increase or maintain revenue and earnings could be adversely affected to the extent that relevant economic environments decline. Such weak economic conditions may also inhibit QVC's expansion into new European and other markets. The Company is currently unable to predict the extent of any of these potential adverse effects.

On June 23, 2016, the United Kingdom ("U.K.") held a referendum in which British citizens approved an exit from the European Union (the "EU"), commonly referred to as "Brexit." As a result of the referendum, the global markets and currencies have been adversely impacted, including a sharp decline in the value of the U.K. Pound Sterling as compared to the U.S. Dollar. Volatility in exchange rates is expected to continue in the short term as the U.K. negotiates its exit from the EU. In the longer term, any impact from Brexit on QVC will depend, in part, on the outcome of tariff, trade, regulatory and other negotiations. Although it is unknown what the result of those negotiations will be, it is possible that new terms may adversely affect QVC's operations and financial results.

During his campaign in the 2016 U.S. presidential election, the current President of the U.S. expressed apprehension towards existing trade agreements, such as the North American Free Trade Agreement and the Trans-Pacific Partnership, and suggested that the U.S. would renegotiate or withdraw from these agreements. He also raised the possibility of significantly increasing tariffs on goods imported into the United States, particularly from China and Mexico, which, if implemented, could adversely affect our subsidiaries' businesses because they sell imported products.

zulily. zulily's objective is to be the leading online retail destination for women who love to shop. zulily's goal is to be part of its customers' daily routine, allowing them to visit zulily sites and discover a selection of fresh, new and affordable merchandise curated for them every morning. zulily intends to employ the following strategies to achieve these goals and objectives: (i) acquire new customers; (ii) increase customer loyalty and repeat purchasing; (iii) add new vendors and strengthen existing vendor relationships; and (iv) invest in mobile platform and channels that its customers want to engage with the brand in. In addition, zulily expects to invest in and develop international markets and supply chain systems.

zulily has limited contractual assurances of continued supply, pricing or access to new products, and vendors could change the terms upon which they sell to zulily or discontinue selling to zulily for future sales at any time. As zulily grows, continuing to identify a sufficient number of new emerging brands and smaller boutique vendors may become more and more of a challenge. If zulily is not able to identify and effectively promote these new brands, it may lose customers to competitors. Even if zulily identifies new vendors, it may not be able to purchase desired merchandise in sufficient quantities or on acceptable terms in the future, and products from alternative sources, if any, may be of a lesser quality or more expensive than those from existing vendors. In addition, larger national brands may offer products that are less unique, and it may be easier for zulily's competitors to offer such products at prices or upon terms that may be compelling to consumers. An inability to purchase suitable merchandise on acceptable terms or to source new vendors could have an adverse effect on zulily's business.

To support its large and diverse base of vendors and its flash sales model that requires constantly changing products, zulily must incur costs related to its merchandising team, photography studios and creative personnel. As zulily grows, it may not be able to continue to expand its product offerings in a cost-effective manner. In addition, the variety in size and sophistication of zulily's vendors presents different challenges to its infrastructure and operations. zulily's emerging brands and smaller boutique vendors may be less experienced in manufacturing and shipping, which in the past has led to inconsistencies in quality, delays in the delivery of merchandise or additional fulfillment cost. zulily's larger national brands may impose additional requirements or offer less favorable terms than smaller vendors related to margins and inventory ownership and risk and may also be unable to ship products timely. If zulily is unable to maintain and effectively manage its relationships with emerging brands and smaller boutique vendors or larger national brands, zulily's business could be adversely affected.

Results of Operations—Consolidated

General. We provide in the tables below information regarding our Consolidated Operating Results and Other Income and Expense, as well as information regarding the contribution to those items from our principal reportable segments. The "Corporate and other" category consists of those assets or businesses which we do not disclose separately, including our Digital Commerce businesses. For a more detailed discussion and analysis of the financial results of the principal reporting segments, see "Results of Operations - Businesses" below.

Operating Results

	Years ended December 31,		
	2017	**2016**	**2015**
	amounts in millions		
Revenue			
QVC Group			
QVC	$ 8,771	8,682	8,743
HSN	—	NA	NA
zulily	1,613	1,547	426
Corporate and other	—	—	—
Inter-segment eliminations	(3)	(10)	—
Total QVC Group	10,381	10,219	9,169
Ventures Group			
Corporate and other	23	428	820
Total Ventures Group	23	428	820
Consolidated Liberty	$ 10,404	10,647	9,989
Operating Income (Loss)			
QVC Group			
QVC	$ 1,347	1,203	1,275
HSN	(38)	NA	NA
zulily	(129)	(152)	(53)
Corporate and other	(80)	(40)	(52)
Total QVC Group	1,100	1,011	1,170
Ventures Group			
Corporate and other	(57)	(43)	(54)
Total Ventures Group	(57)	(43)	(54)
Consolidated Liberty	$ 1,043	968	1,116
Adjusted OIBDA			
QVC Group			
QVC	$ 1,897	1,840	1,894
HSN	—	NA	NA
zulily	91	112	21
Corporate and other	(35)	(16)	(28)
Total QVC Group	1,953	1,936	1,887
Ventures Group			
Corporate and other	(27)	3	59
Total Ventures Group	(27)	3	59
Consolidated Liberty	$ 1,926	1,939	1,946

Revenue. Our consolidated revenue decreased 2.3% and increased 6.6% for the years ended December 31, 2017 and 2016, respectively, as compared to the corresponding prior year periods. Corporate and other revenue decreased $405 million for the year ended December 31, 2017, as compared to the corresponding period in the prior year due to the disposition of Bodybuilding in November 2016 as part of the Expedia Holdings Split-Off ($355 million) and the CommerceHub Spin-Off in July 2016 ($51 million). Corporate and other revenue decreased $392 million for the year ended December 31, 2016, as compared to the corresponding prior year period due to the sale of Backcountry in June 2015 ($227 million), the disposition of Bodybuilding in November 2016 as part of the Expedia Holdings Split-Off ($109 million) and the CommerceHub Spin-Off in July 2016 ($38 million). QVC's revenue increased $89 million and decreased $61 million for the years ended December 31, 2017 and 2016, respectively, as compared to the corresponding prior year periods. zulily's revenue increased $66 million during the year ended December 31, 2017, as compared to the corresponding prior year period. The increase in zulily's revenue in 2016 compared to the same period in the prior year was due to the acquisition of zulily on October 1, 2015. With the exception of $38 million of severance-related costs incurred on December 30, 2017, HSN's results of operations are not included in our consolidated operating results for the year ended December 31, 2017. See "Results of Operations - Businesses" below for a more complete discussion of the results of operations of QVC, HSN and zulily.

Operating income (loss). Our consolidated operating income increased $75 million and decreased $148 million for the years ended December 31, 2017 and 2016, respectively, as compared to the corresponding prior year periods. Operating losses for Corporate and other declined $54 million for the year ended December 31, 2017, as compared to the corresponding prior year period, primarily due to an increase in stock compensation expense as a result of the stock option exchange (see note 15 to the accompanying consolidated financial statements), and transaction costs associated with the acquisition of HSN, partially offset by the disposition of Bodybuilding in November 2016 as part of the Expedia Holdings Split-Off, and the CommerceHub Spin-Off. Operating losses for Corporate and other decreased $23 million for the year ended December 31, 2016, as compared to the corresponding prior year period, primarily due to the CommerceHub Spin-Off. QVC's operating income increased $144 million and decreased $72 million for the years ended December 31, 2017 and 2016, respectively as compared to the corresponding prior year periods. zulily's operating losses improved $23 million and declined $99 million for the years ended December 31, 2017 and 2016, respectively, as compared to the corresponding prior year periods. HSN's operating loss was the result of $38 million of severance-related expenses, including salaries and wages and stock-based compensation expense, recorded in the period ended December 31, 2017. See "Results of Operations - Businesses" below for a more complete discussion of the results of operations of QVC, HSN and zulily.

Adjusted OIBDA. We define Adjusted OIBDA as revenue less cost of sales, operating expenses and selling, general and administrative ("SG&A") expenses (excluding stock compensation). Our chief operating decision maker and management team use this measure of performance in conjunction with other measures to evaluate our businesses and make decisions about allocating resources among our businesses. We believe this is an important indicator of the operational strength and performance of our businesses, including each business's ability to service debt and fund capital expenditures. In addition, this measure allows us to view operating results, perform analytical comparisons and benchmarking between businesses and identify strategies to improve performance. This measure of performance excludes such costs as depreciation and amortization, stock-based compensation and restructuring and impairment charges that are included in the measurement of operating income pursuant to generally accepted accounting policies ("GAAP"). Accordingly, Adjusted OIBDA should be considered in addition to, but not as a substitute for, operating income, net income, cash flow provided by operating activities and other measures of financial performance prepared in accordance with GAAP. See note 19 to the accompanying consolidated financial statements for a reconciliation of Adjusted OIBDA to operating income and earnings (loss) from continuing operations before income taxes.

Consolidated Adjusted OIBDA decreased $13 million and $7 million for the years ended December 31, 2017 and 2016, respectively, as compared to the corresponding prior year periods. Corporate and other Adjusted OIBDA decreased $49 million for the year ended December 31, 2017, as compared to the corresponding period in the prior year, primarily due to the disposition of Bodybuilding in November 2016 as part of the Expedia Holdings Split-Off ($24 million), the CommerceHub Spin-Off in July 2016 ($16 million), and transaction costs associated with the acquisition of HSNi (approximately $15 million). Corporate and other adjusted OIBDA decreased $44 million for the year ended December 31, 2016, as compared to the corresponding prior year period, primarily due to the CommerceHub Spin-Off in July 2016 ($28 million), the sale of Backcountry in June 2015 ($8 million) and the disposition of Bodybuilding in November 2016 as part of the Expedia Holdings Split-Off ($5 million). QVC's Adjusted OIBDA increased $57 million and decreased $54 million for the years ended December 31, 2017 and 2016, respectively, as compared to the corresponding prior year periods. zulily's Adjusted OIBDA decreased $21 million and increased $91 million for the years ended December 31, 2017 and

2016, respectively, as compared to the corresponding prior year periods. See "Results of Operations - Businesses" below for a more complete discussion of the results of operations of QVC, HSN and zulily.

Other Income and Expense

Components of Other Income (Expense) are presented in the table below.

	Years ended December 31, 2017	2016	2015
	amounts in millions		
Interest expense			
QVC Group	$ (293)	(289)	(283)
Ventures Group	(62)	(74)	(77)
Consolidated Liberty	$ (355)	(363)	(360)
Share of earnings (losses) of affiliate, net			
QVC Group	$ 38	42	55
Ventures Group	(238)	(110)	(233)
Consolidated Liberty	$ (200)	(68)	(178)
Realized and unrealized gains (losses) on financial instruments, net			
QVC Group	$ —	2	42
Ventures Group	618	1,173	72
Consolidated Liberty	$ 618	1,175	114
Gains (losses) on transactions, net			
QVC Group	$ 409	—	—
Ventures Group	1	9	110
Consolidated Liberty	$ 410	9	110
Other, net			
QVC Group	$ (3)	42	(6)
Ventures Group	10	89	20
Consolidated Liberty	$ 7	131	14

Interest expense. Interest expense decreased $8 million and increased $3 million for the years ended December 31, 2017 and 2016, respectively, as compared to the corresponding prior year periods. The decrease in interest expense for the year ended December 31, 2017 is due to higher average debt balances at the corporate level in 2016, and the redemption of the majority of our 0.75% Exchangeable Senior Debentures due 2043 during the second and third quarter of 2016. The increase in interest expense for the year ended December 31, 2016 is due to higher average debt balances at QVC, partially offset by lower interest rates under QVC's credit facility.

Share of earnings (losses) of affiliates. The following table presents our share of earnings (losses) of affiliates:

	Years ended December 31,		
	2017	2016	2015
	amounts in millions		
QVC Group			
HSN	$ 40	48	64
Other	(2)	(6)	(9)
Total QVC Group	38	42	55
Ventures Group			
FTD (1)	(146)	(41)	(83)
LendingTree	7	12	2
Other	(99)	(81)	(152)
Total Ventures Group	(238)	(110)	(233)
Consolidated Liberty	$ (200)	(68)	(178)

(1) The carrying value of Liberty's investment in FTD was written down to its fair value as of December 31, 2017 and as of December 31, 2015.

The Other category for the Ventures Group is comprised of alternative energy investments and other investments. The alternative energy investments generally operate at a loss but provide favorable tax attributes recorded through the income tax (expense) benefit line item in the consolidated statements of operations. During the year ended December 31, 2015, Liberty recorded an impairment of approximately $98 million related to one of its alternative energy investments which has underperformed operationally.

Realized and unrealized gains (losses) on financial instruments. Realized and unrealized gains (losses) on financial instruments are comprised of changes in the fair value of the following:

	Years ended December 31,		
	2017	2016	2015
	amounts in millions		
Fair Value Option Securities - AFS	$ 434	723	84
Fair Value Option Securities - Liberty Broadband	473	761	NA
Exchangeable senior debentures	(193)	(308)	30
Other financial instruments	(96)	(1)	—
	$ 618	1,175	114

The changes in these accounts are due primarily to market factors and changes in the fair value of the underlying stocks or financial instruments to which these relate. The decrease for the year ended December 31, 2017 as compared to the corresponding prior year period was primarily driven by the investments in Liberty Broadband and Charter experiencing higher gains during 2016 compared to 2017, as well as the exchange of a majority of our 0.75% Exchangeable Senior Debentures due 2043 during 2016. The increase for the year ended December 31, 2016 as compared to the corresponding prior year period was primarily driven by the investment in Liberty Broadband, the investment in Charter, and the change in Liberty's ownership interest in ILG, which resulted in its classification as an available-for-sale security rather than an equity method investment.

Gains on transactions, net. Gain on transactions, net, increased $401 million and decreased $101 million for the years ended December 31, 2017 and 2016, respectively, as compared to the corresponding prior year periods. The gain on transactions, net for the year ended December 31, 2017 is related to the acquisition of HSNi. In conjunction with the application of acquisition accounting, we recorded a full step up in basis of HSNi along with a gain between our historical basis and the fair value of our interest in HSNi. The gain on transactions, net, for the year ended December 31, 2016 is primarily the result of the sale of Right Start in January 2016. The gain on transactions, net for the year ended December 31, 2015 primarily relates to the sale of Backcountry on June 30, 2015, which resulted in a $105 million gain.

Other, net. The primary components of other, net are gains (losses) on dilution of investments in affiliates, foreign exchange gains (losses) and interest income. Other, net decreased $124 million for the year ended December 31, 2017 when compared to the corresponding prior year period primarily due to a change in gain (loss) on dilution of investments of $80 million and a change in foreign exchange gains (losses) of $44 million. Other, net increased $117 million for the year ended December 31, 2016 when compared to the corresponding prior year period primarily due to a change in gain (loss) on dilution of investments in affiliates of $83 million, and a change in foreign exchange gains (losses) of $26 million.

Income taxes. The Company had an income tax benefit of $964 million, and income tax expense of $598 million and $185 million for the years ended December 31, 2017, 2016 and 2015, respectively. In connection with the initial analysis of the impact of the Tax Cuts and Jobs Act (the "Tax Act"), as discussed in note 12 in the accompanying consolidated financial statements, the Company has recorded a discrete net tax benefit in the period ending December 31, 2017. This net benefit primarily consists of a net benefit for the corporate rate reduction. In addition our tax rate was impacted by the consolidation of our equity method investment in HSNi during the year ended December 31, 2017.

Our effective tax rate for the years ended December 31, 2016 and 2015 was 32.3% and 22.7%, respectively. The effective tax rate is less than the U.S. federal tax rate of 35% in both periods primarily due to tax credits and incentives derived from our alternative energy investments. In addition, in 2015, Liberty recognized tax benefits related to the receipt of taxable dividends that are subject to dividends received deductions.

Net earnings. We had net earnings of $2,487 million, $1,274 million and $911 million for the years ended December 31, 2017, 2016 and 2015, respectively. The change in net earnings was the result of the above-described fluctuations in our revenue, expenses and other gains and losses.

Liquidity and Capital Resources

As of December 31, 2017 substantially all of our cash and cash equivalents are invested in U.S. Treasury securities, other government securities or government guaranteed funds, AAA rated money market funds and other highly rated financial and corporate debt instruments.

The following are potential sources of liquidity: available cash balances, equity issuances, dividend and interest receipts, proceeds from asset sales, monetization of our public investment portfolio, debt (including availability under QVC's Bank Credit Facilities, (the "Third Amended and Restated Credit Facility") and HSNi's Bank Credit Facility, as discussed in note 11 of the accompanying consolidated financial statements) and cash generated by the operating activities of our wholly-owned subsidiaries. Cash generated by the operating activities of our subsidiaries is only a source of liquidity to the extent such cash exceeds the working capital needs of the subsidiaries and is not otherwise restricted such as, in the case of QVC, zulily and HSNi, due to a requirement that a leverage ratio (defined as the ratio of subsidiaries' consolidated total debt to Adjusted OIBDA for the most recent four fiscal quarter period) of less than 3.5 to 1.0 must be maintained.

During the year, there were no changes to our corporate debt credit ratings or our consolidated subsidiaries' debt credit ratings. Liberty, QVC and HSNi are in compliance with their debt covenants as of December 31, 2017.

As of December 31, 2017, Liberty's liquidity position consisted of the following:

	Cash and cash equivalents	Available-for-sale securities
	amounts in millions	
QVC	$ 261	—
HSNi	22	
zulily	17	—
Corporate and other	30	3
Total QVC Group	330	3
Corporate and other	573	2,360
Total Ventures Group	573	2,360
Consolidated Liberty	$ 903	2,363

To the extent that the Company recognizes any taxable gains from the sale of assets, we may incur tax expense and be required to make tax payments, thereby reducing any cash proceeds. Additionally, we have $877 million available for borrowing under the QVC Bank Credit Facility at December 31, 2017, and $533 million available for borrowing under the HSNi Bank Credit Facility as of December 31, 2017. As of December 31, 2017, QVC had approximately $204 million of cash and cash equivalents held in foreign subsidiaries that is available for domestic purposes with no significant tax consequences upon repatriation to the U.S. QVC accrues taxes on the unremitted earnings of its international subsidiaries. Approximately 79% of this foreign cash balance was that of QVC-Japan. QVC owns 60% of QVC-Japan and shares all profits and losses with the 40% minority interest holder, Mitsui & Co, LTD. QVC believes that it currently has appropriate legal structures in place to repatriate foreign cash as tax efficiently as possible and meet the business needs of QVC.

Additionally, our operating businesses have generated, on average, more than $1 billion in annual cash provided by operating activities over the prior three years and we do not anticipate any significant reductions in that amount in future periods.

	Years ended December 31,		
	2017	2016	2015
Cash Flow Information	amounts in millions		
QVC Group cash provided (used) by operating activities	$ 1,222	1,273	1,005
Ventures Group cash provided (used) by operating activities	270	170	57
Net cash provided (used) by operating activities	$ 1,492	1,443	1,062
QVC Group cash provided (used) by investing activities	$ (229)	(238)	(909)
Ventures Group cash provided (used) by investing activities	(162)	(1,254)	121
Net cash provided (used) by investing activities	$ (391)	(1,492)	(788)
QVC Group cash provided (used) by financing activities	$ (1,014)	(1,103)	(89)
Ventures Group cash provided (used) by financing activities	(22)	(469)	(33)
Net cash provided (used) by financing activities	$ (1,036)	(1,572)	(122)

QVC Group

During the year ended December 31, 2017, the QVC Group uses of cash were primarily the net repayment of certain debt obligations of $149 million and repurchase of Series A QVC Group common stock of $765 million. Additionally, the QVC Group had approximately $201 million of capital expenditures during the year ended December 31, 2017.

In 2018, the projected uses of QVC Group cash are the cost to service outstanding debt, approximately $280 million in interest payments on QVC and corporate level debt, anticipated capital improvement spending of approximately $290 million and the continued buyback of QVC Group common stock under the approved share buyback program.

Ventures Group

During the year ended December 31, 2017, the Ventures Group uses of cash were primarily the repayment of certain debt obligations of $13 million and the purchase of additional cost and equity investments of $159 million.

The projected uses of Ventures Group cash are approximately $58 million in interest payments to service outstanding debt, and further investments in existing or new businesses through continued investment activity.

Consolidated

During the year ended December 31, 2017, Liberty's primary uses of cash were $162 million of net repayments on outstanding debt, repurchases of Series A QVC Group common stock of $765 million, purchase of additional cost and equity investments of $159 million and capital expenditures of $204 million.

The projected uses of Liberty’s cash, outside of normal operating expenses (inclusive of tax payments), are the costs to service outstanding debt, approximately $338 million for interest payments on outstanding debt, corporate level and other subsidiary debt, anticipated capital improvement spending at the QVC Group of approximately $290 million, the repayment of certain debt obligations and the potential buyback of common stock under the approved share buyback program and additional investments in existing or new businesses. We also may be required to make net payments of income tax liabilities to settle items under discussion with tax authorities. We expect that cash on hand and cash provided by operating activities in future periods and outstanding borrowing capacity will be sufficient to fund projected uses of cash.

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

In connection with agreements for the sale of assets by our company, we may retain liabilities that relate to events occurring prior to the sale, such as tax, environmental, litigation and employment matters. We generally indemnify the purchaser in the event that a third party asserts a claim against the purchaser that relates to a liability retained by us. These types of indemnification obligations may extend for a number of years. We are unable to estimate the maximum potential liability for these types of indemnification obligations as the sale agreements may not specify a maximum amount and the amounts are dependent upon the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time. Historically, we have not made any significant indemnification payments under such agreements and no amount has been accrued in the accompanying consolidated financial statements with respect to these indemnification obligations.

We have contingent liabilities related to legal and tax proceedings and other matters arising in the ordinary course of business. Although it is reasonably possible we may incur losses upon conclusion of such matters, an estimate of any loss or range of loss cannot be made. In the opinion of management, it is expected that amounts, if any, which may be required to satisfy such contingencies will not be material in relation to the accompanying consolidated financial statements.

Information concerning the amount and timing of required payments, both accrued and off-balance sheet, under our contractual obligations, excluding uncertain tax positions as it is undeterminable when payments will be made, is summarized below.

	Payments due by period				
	Total	Less than 1 year	2 - 3 years	4 - 5 years	After 5 years
	amounts in millions				
Consolidated contractual obligations					
Long-term debt (1)	$ 8,594	24	448	2,766	5,356
Interest payments (2)	5,743	338	667	580	4,158
Operating lease obligations	413	73	116	81	143
Build to suit lease	87	5	12	12	58
Purchase orders and other obligations	1,756	1,688	64	4	—
Total	$ 16,593	2,128	1,307	3,443	9,715

(1) Amounts are reflected in the table at the outstanding principal amount, assuming the debt instruments will remain outstanding until the stated maturity date, and may differ from the amounts stated in our consolidated balance sheet to the extent debt instruments (i) were issued at a discount or premium or (ii) have elements which are reported at fair value in our consolidated balance sheets. Amounts also include capital lease obligations. Amounts do not assume additional borrowings or refinancings of existing debt.

(2) Amounts (i) are based on our outstanding debt at December 31, 2017, (ii) assume the interest rates on our variable rate debt remain constant at the December 31, 2017 rates and (iii) assume that our existing debt is repaid at maturity.

Critical Accounting Estimates

The preparation of our financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Listed below are the accounting estimates that we believe are critical to our financial statements due to the degree of uncertainty regarding the estimates or assumptions involved and the magnitude of the asset, liability, revenue or expense being reported. All of these accounting estimates and assumptions, as well as the resulting impact to our financial statements, have been discussed with the audit committee of our board of directors.

Fair Value Measurements

Financial Instruments. We record a number of assets and liabilities in our consolidated balance sheets at fair value on a recurring basis, including available-for-sale ("AFS") securities, our investment in Liberty Broadband, financial instruments and our exchangeable senior debentures. GAAP provides a hierarchy that prioritizes inputs to valuation techniques used to measure fair value into three broad levels. Level 1 inputs are quoted market prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. We use quoted market prices, or Level 1 inputs, to value our Fair Value Option (as defined below) securities and our investment in Liberty Broadband. As of December 31, 2017 and 2016, the carrying value of our Fair Value Option securities was $2,275 million and $1,846 million, respectively. As of December 31, 2017, the carrying value of our investment in Liberty Broadband was $3,635 million.

Level 2 inputs, other than quoted market prices included within Level 1, are observable for the asset or liability, either directly or indirectly. We use quoted market prices to determine the fair value of our exchangeable senior debentures. However, these debentures are not traded on active markets as defined in GAAP, so these liabilities fall in Level 2. As of December 31, 2017 and 2016, the principal amount and carrying value of our exchangeable debentures were $1,947 million and $1,846 million, respectively.

Level 3 inputs are unobservable inputs for an asset or liability. We currently have no Level 3 financial instrument assets or liabilities.

Non-Financial Instruments. Our non-financial instrument valuations are primarily comprised of our annual assessment of the recoverability of our goodwill and other nonamortizable intangible assets, such as trademarks and our evaluation of the recoverability of our other long-lived assets upon certain triggering events, and our determination of the estimated fair value allocation of net tangible and identifiable intangible assets acquired in business combinations. If the carrying value of our long-lived assets exceeds their undiscounted cash flows, we are required to write the carrying value down to fair value. Any such writedown is included in impairment of long-lived assets in our consolidated statements of operations. A high degree of judgment is required to estimate the fair value of our long-lived assets. We may use quoted market prices, prices for similar assets, present value techniques and other valuation techniques to prepare these estimates. We may need to make estimates of future cash flows and discount rates as well as other assumptions in order to implement these valuation techniques. Due to the high degree of judgment involved in our estimation techniques, any value ultimately derived from our long-lived assets may differ from our estimate of fair value. As each of our operating segments has long-lived assets, this critical accounting policy affects the financial position and results of operations of each segment.

As of December 31, 2017, the intangible assets not subject to amortization for each of our significant reportable segments were as follows:

	Goodwill	Trademarks	Total
	amounts in millions		
QVC	$ 5,190	2,428	7,618
HSNi	933	627	1,560
zulily	917	870	1,787
Corporate and other	42	4	46
	$ 7,082	3,929	11,011

We perform our annual assessment of the recoverability of our goodwill and other non-amortizable intangible assets during the fourth quarter of each year. We utilize a qualitative assessment for determining whether a quantitative goodwill impairment analysis is necessary. The accounting guidance permits entities to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the quantitative goodwill impairment test. In evaluating goodwill on a qualitative basis the Company reviews the business performance of each reporting unit and evaluates other relevant factors as identified in the relevant accounting guidance to determine whether it is more likely than not that an indicated impairment exists for any of our reporting units. The Company considers whether there are any negative macroeconomic conditions, industry specific conditions, market changes, increased competition, increased costs in doing business, management challenges, the legal environments and how these factors might impact company specific performance in future periods. As part of the analysis the Company also considers fair value determinations for certain reporting units that have been made at various points throughout the current and prior years for other purposes. There were no goodwill and other intangible impairments in 2017, 2016 and 2015.

Retail Related Adjustments and Allowances. QVC records adjustments and allowances for sales returns, inventory obsolescence and uncollectible receivables. Each of these adjustments is estimated based on historical experience. Sales returns are calculated as a percent of sales and are netted against revenue in our consolidated statements of operations. For the years ended December 31, 2017, 2016 and 2015, sales returns represented 18.1%, 18.3% and 19.1% of QVC's gross product revenue, respectively. The inventory obsolescence reserve is calculated as a percent of QVC's inventory at the end of a reporting period based on, among other factors, the average inventory balance for the preceding 12 months and historical experience with liquidated inventory. The change in the reserve is included in cost of retail sales in our consolidated statements of operations. At December 31, 2017, QVC's inventory was $1,019 million, which was net of the obsolescence adjustment of $92 million. At December 31, 2016, inventory was $950 million, which was net of the obsolescence adjustment of $76 million. QVC's allowance for doubtful accounts is calculated as a percent of accounts receivable at the end of a reporting period, and the change in such allowance is recorded as a provision for doubtful accounts in Selling, general, and administrative expenses in our consolidated statements of operations. At December 31, 2017, QVC's trade accounts receivable were $1,388 million, net of the allowance for doubtful accounts of $91 million. At

December 31, 2016, trade accounts receivable were $1,246 million, net of the allowance for doubtful accounts of $97 million. Each of these estimates requires management judgment and may not reflect actual results.

Income Taxes. We are required to estimate the amount of tax payable or refundable for the current year and the deferred income tax liabilities and assets for the future tax consequences of events that have been reflected in our financial statements or tax returns for each taxing jurisdiction in which we operate. This process requires our management to make judgments regarding the timing and probability of the ultimate tax impact of the various agreements and transactions that we enter into. Based on these judgments we may record tax reserves or adjustments to valuation allowances on deferred tax assets to reflect the expected realizability of future tax benefits. Actual income taxes could vary from these estimates due to future changes in income tax law, significant changes in the jurisdictions in which we operate, our inability to generate sufficient future taxable income or unpredicted results from the final determination of each year's liability by taxing authorities. These changes could have a significant impact on our financial position.

Results of Operations—Businesses

QVC

QVC is a retailer of a wide range of consumer products, which are marketed and sold primarily by merchandise-focused televised shopping programs, the Internet and mobile applications. In the U.S., QVC's televised shopping programs, including live and recorded content, are broadcast across multiple channels nationally on a full-time basis, including QVC, QVC2 and Beauty iQ. The Company's U.S. programming is also available on QVC.com, QVC's U.S. website; mobile applications via streaming video; over-the-air broadcasters; and over-the-top content platforms (Roku, Apple TV, etc.) (such U.S. operations, "QVC-U.S."). QVC's international televised shopping programs, including live and recorded content, are distributed to households outside of the U.S., primarily in Germany, Austria, Japan, the U.K., the Republic of Ireland, Italy and France (such international operations, "QVC-International"). In some of the countries where QVC operates, QVC's televised shopping programs are broadcast across multiple QVC channels: QVC Beauty & Style and QVC2 in Germany and QVC Beauty, QVC Extra, QVC Style in the U.K. The programming created for most of these markets is also available via streaming video on QVC's digital platforms. QVC's international business employs product sourcing teams who select products tailored to the interests of each local market.

QVC also has a joint venture with CNR Media Group, formerly known as China Broadcasting Corporation, a limited liability company owned by China National Radio ("CNR"). QVC owns a 49% interest in a CNR subsidiary, CNR Home Shopping Co., Ltd. ("CNRS"). CNRS operates a retail business in China through a shopping television channel with an associated website. The CNRS joint venture is accounted for as an equity method investment.

QVC's operating results were as follows:

	Years ended December 31,		
	2017	2016	2015
	amounts in millions		
Net revenue	$ 8,771	8,682	8,743
Cost of sales	(5,598)	(5,540)	(5,528)
Operating expenses	(601)	(606)	(607)
SG&A expenses (excluding stock-based compensation)	(675)	(696)	(714)
Adjusted OIBDA	1,897	1,840	1,894
Stock-based compensation	(31)	(32)	(31)
Depreciation and amortization	(519)	(605)	(588)
Operating income	$ 1,347	1,203	1,275

Net revenue was generated from the following geographical areas:

	Years ended December 31,		
	2017	2016	2015
	amounts in millions		
QVC-U.S.	$ 6,140	6,120	6,257
QVC-International	2,631	2,562	2,486
	$ 8,771	8,682	8,743

QVC's consolidated net revenue increased 1.0% and decreased 0.7% for the years ended December 31, 2017 and 2016, respectively, as compared to the corresponding prior years. The 2017 increase of $89 million in net revenue was primarily comprised of an increase of $405 million due to a 4.2% increase in units sold. This was primarily offset by a 2.3% decrease in average selling price per unit ("ASP") attributing $237 million, $33 million due to unfavorable foreign currency rates, a decrease of $27 million in shipping and handling revenue, a $15 million decrease in miscellaneous income and an increase of $4 million in estimated product returns. The 2016 decrease of $61 million in net revenue was primarily due to a 3.9% decrease in ASP attributing $393 million and a $17 million decrease in shipping and handling revenue in constant currency. The decrease was offset by a 2.4% increase in units shipped attributing $237 million, and a decrease of $105 million in estimated product returns.

During the years ended December 31, 2017 and 2016, the changes in revenue and expenses were affected by changes in the exchange rates for the Japanese Yen, the Euro and the U.K. Pound Sterling. In the event the U.S. Dollar strengthens against these foreign currencies in the future, QVC's revenue and operating cash flow will be negatively affected. QVC's product margins may continue to be under pressure due to the devaluation of foreign currencies, and it will attempt to reduce its exposure through pricing and vendor negotiations as Brexit negotiations progress.

In discussing QVC's operating results, the term "currency exchange rates" refers to the currency exchange rates QVC uses to convert the operating results for all countries where the functional currency is not the U.S. dollar. QVC calculates the effect of changes in currency exchange rates as the difference between current period activity translated using the prior period's currency exchange rates. Throughout our discussion, we refer to the results of this calculation as the impact of currency exchange rate fluctuations. When we refer to "constant currency operating results", this means operating results without the impact of the currency exchange rate fluctuations. The disclosure of constant currency amounts or results permits investors to understand better QVC's underlying performance without the effects of currency exchange rate fluctuations.

The percentage change in net revenue for QVC-U.S. and QVC-International in U.S. Dollars and in constant currency was as follows:

	Year ended December 31, 2017			Year ended December 31, 2016		
	U.S. dollars	Foreign Currency Exchange Impact	Constant currency	U.S. dollars	Foreign Currency Exchange Impact	Constant currency
QVC-US	0.3 %	— %	0.3 %	(2.2)%	— %	(2.2)%
QVC-International	2.7 %	(1.3)%	4.0 %	3.1 %	0.1 %	3.0 %

In 2017, QVC-U.S. net revenue increase was primarily due to a 3.7% increase in units shipped and a decrease in estimated product returns. This increase was offset by a 2.9% decrease in ASP, a $32 million decrease in shipping and handling revenue and a $14 million decrease in miscellaneous income. QVC-U.S. experienced shipped sales growth in all categories except jewelry. The decrease in estimated product returns was primarily due to an overall lower return rate across all product categories except jewelry. The decrease in net shipping and handling revenue was a result of a decrease in shipping and handling revenue per unit from promotional offers. QVC-International net revenue growth in constant currency was primarily due to a 5.0% increase in units shipped, driven by increases in Japan, Germany, France and the U.K. offset by a decrease in units shipped in Italy. There was a $5 million increase in shipping and handling revenue, primarily driven by Japan. This was offset by a decrease of 1.0% in ASP, primarily driven in Japan and Germany offset by increases in Italy and the U.K. and a $20 million increase in estimated product returns, driven by all markets except Japan. QVC-International experienced shipped sales growth in constant currency in all categories except electronics and jewelry.

In 2016, QVC-U.S. net revenue decline was primarily due to a 5.5% decrease in ASP and a 4.0% decrease in shipping and handling revenue. The decline was offset by a 2.3% increase in units shipped and a decrease in estimated product returns. QVC-U.S. experienced shipped sales declines in jewelry, electronics and beauty with growth in apparel, home and accessories. The decrease in net shipping and handling revenue was primarily due to the decrease in shipping and handling rates per unit from promotional offers. The decrease in estimated product returns was primarily due to a decrease in an overall lower return rate across all categories and sales. QVC-International net revenue growth in constant currency was primarily due to a 2.5% increase in units shipped, driven mainly in Germany and the U.K., offset by the increase in estimated product returns, driven primarily by product returns in Germany. QVC-International experienced shipped sales growth in constant currency in all categories except jewelry and apparel.

QVC's cost of sales as a percentage of net revenue was 63.8%, 63.8% and 63.2% for the years ended December 31, 2017, 2016 and 2015, respectively. The slight increase in 2016 was primarily due to decreased product margins and increased freight costs in the U.S. associated with the increases in units shipped, partially offset by a favorable inventory obsolescence provision in the U.S.

QVC's operating expenses are principally comprised of commissions, order processing and customer service expenses, credit card processing fees, and telecommunications expenses. Operating expenses decreased $5.0 million or 0.8% and decreased $1.0 million or 0.2% for the years ended December 31, 2017 and 2016, respectively. The decrease in 2017 was primarily due to favorable exchange rates. The slight decrease in 2016 was primarily due to lower telecommunication expense, partially offset by increased commissions expense. The decrease in telecommunication expense was primarily due to lower phone and network rates in the U.S. The increase in commissions expense was primarily due to increases internationally offset by a decrease in sales in the U.S.

QVC's SG&A expenses (excluding stock compensation) include personnel, information technology, provision for doubtful accounts, credit card income, production costs and marketing and advertising expense. Such expenses decreased $21 million, and remained at 8% of net revenue for the year ended December 31, 2017 as compared to the prior year and decreased $18 million and 8% of net revenue for the year ended December 31, 2016 as compared to the prior year, as a result of a variety of factors.

The decrease in 2017 was primarily due to a decrease in bad debt expense of $35 million, a decrease in severance expense of $13 million, $4 million from favorable foreign currency rates and a $6 million increase in credit card income offset by an increase in bonus expense of $33 million and a $4 million increase in marketing expenses. The decrease in bad debt expense was primarily related to lower default rates associated with the Easy-Pay program in the U.S. The increase in credit card income was due to the favorable economics of the QVC-branded credit card ("Q card") portfolio in the U.S. The increase in marketing expenses was primarily due to an increase in the investment made to eMarketing partially offset by discontinuing the naming rights to the Chiba Marine Stadium in Japan.

The decrease in 2016 was primarily related to reduced personnel costs of $63 million and an increase of credit card income of $8 million which was partially offset by increases in bad debt expense of $25 million, software expense of $13 million, franchise tax expense of $10 million and external services of $8 million. The decrease in personnel costs was primarily due to a decrease in bonuses and benefits in the U.S., and severance. The increase in credit card income was due to the favorable economics and usage of the Q card portfolio in the U.S. The increase in bad debt expense was primarily related to an increase in U.S. Easy-Pay sales penetration and default rates. The increase in software expense was mainly due to an increase in software licensing and software maintenance. The increase in franchise tax expense was mainly due to a favorable franchise tax reserve adjustment related to an audit settlement in 2015 which was not experienced in the year ended December 31, 2016. The increase in external services was primarily due to internal control enhancements and the establishment of a global business service center located in Krakow, Poland.

Stock-based compensation includes compensation related to options and restricted stock granted to certain officers and employees. QVC recorded $31 million, $32 million and $31 million of stock-based compensation expense for the years ended December 31, 2017, 2016 and 2015, respectively.

Depreciation and amortization consisted of the following:

	Years ended December 31,		
	2017	2016	2015
	amounts in millions		
Affiliate agreements	$ 97	146	146
Customer relationships	113	169	170
Acquisition related amortization	210	315	316
Property and equipment	155	142	134
Software amortization	93	100	93
Channel placement amortization and related expenses	61	48	45
Total depreciation and amortization	$ 519	605	588

For the year ended December 31, 2017, acquisition related amortization expense decreased primarily due to the end of the useful lives of certain affiliate agreements and customer relationships established at the time of Liberty's acquisition of QVC in 2003. This was offset by an increase in channel placement amortization related to the addition of Beauty iQ in the U.S. and the increase in depreciation related to the additions at the California distribution center. For the year ended December 31, 2016, depreciation and amortization increased primarily due to expense related to the additions at the California distribution center and new website functionality.

HSN

On December 29, 2017, Liberty acquired the approximately 62% of HSNi it did not already own in an all-stock transaction making HSNi a wholly-owned subsidiary, attributed to the QVC Group tracking stock group. As HSNi’s Cornerstone operating segment was included in the “Corporate and other” reportable segment (see note 19 in the accompanying consolidated financial statements), the information presented in this section relates to the HSN reportable segment. With the exception of $38 million of severance-related costs incurred on December 30, 2017, HSN’s results of operations are not included in our consolidated operating results for the year ended December 31, 2017, as the final two days of the period were considered immaterial. However, we believe a discussion of HSN’s stand alone results promotes a better understanding of the overall results of its business.

HSN is an interactive entertainment and lifestyle retailer offering a curated assortment of exclusive products and top brand names to its customers primarily through television home shopping programming on the HSN television networks, through its business-to-consumer digital commerce site HSN.com, through mobile applications, through outlet stores and through wholesale distribution of certain proprietary products to other retailers. HSN incorporates entertainment, inspiration and personalities to provide an entirely unique shopping experience. HSN’s live programming is distributed via its nationally televised shopping program seven days a week, 364 days per year.

HSN’s stand-alone operating results for the last three years were as follows:

	Years ended December 31, 2017 (3)	December 31, 2016 (3)	December 31, 2015 (3)
		amounts in millions	
Net revenue	$ 2,343	2,479	2,552
Cost of sales	(1,533)	(1,638)	(1,647)
SG&A expenses (excluding stock-based compensation and acquisition related expenses)	(590)	(582)	(605)
Adjusted OIBDA	220	259	300
Stock-based compensation	(17)	(15)	(14)
Depreciation and amortization	(31)	(29)	(29)
Acquisition and restructuring related expenses (1) (2)	(69)	—	(5)
Operating income (loss)	$ 103	215	252

(1) For the year ended December 31, 2017, Acquisition and restructuring related expenses includes $69 million of transaction related costs related to the acquisition of HSN by the Company.

(2) For the year ended December 31, 2015, Acquisition and restructuring related expenses includes $2 million of severance costs associated with a reorganization at HSN and $3 million for certain costs associated with the planned closure of one of HSN's distribution centers.

(3) HSN has reclassified certain costs between financial statement line items to conform with Liberty’s reporting structure for ease of comparability for the periods presented.

HSN’s net sales primarily relate to the sale of merchandise, including shipping and handling fees, and are reduced by incentive discounts and actual and estimated sales returns. Sales taxes collected are not included in net sales. Digital sales include sales placed through our websites and our mobile applications, including tablets and smart phones. Revenue is recorded when delivery to the customer has occurred. Delivery is considered to have occurred when the customer takes title and assumes the risks and rewards of ownership, which is on the date of shipment. HSNi’s sales policy allows customers to return virtually all merchandise for a full refund or exchange, subject to pre-established time restrictions.

HSN's net revenue decreased 5.5% and 2.9% for the years ended December 31, 2017 and December 31, 2016, respectively, as compared to the corresponding prior years. The decrease in net revenue for the year ended December 31, 2017 was primarily attributed to a 3.3% decrease in ASP, a 3.5% decrease in units shipped and a 21.7% decrease in shipping and handling revenue. The decline was partially offset by a 1.4% improvement in the sales return rate from 16.3% to 14.9%. HSN experienced sales declines in all categories. The decrease in net shipping and handling revenue was primarily due to the decrease in shipping and handling rates per unit from promotional offers and due to a reduction in HSN’s standard shipping rates which became effective in August 2016. The decrease in estimated product returns was primarily due to a decrease in return rates experienced across most categories. The decrease in net revenue for the year ended December 31, 2016 was primarily attributed to a 3.4% decrease in ASP and a 20.0% decrease in shipping and handling revenue, partially offset by a 0.8% improvement in the sales return rate from 17.1% to 16.3%. HSN experienced sales declines in all categories with the exception of apparel and electronics. The decrease in net shipping and handling revenue was primarily due to the decrease in shipping and handling rates per unit from promotional offers and due to a reduction in HSN’s standard shipping rates which became effective in August 2016. The decrease in the sales return rate was primarily due to a sales mix shift to categories with lower return rates and an overall lower return rate across all categories. Approximately one-third of the decline in net sales was attributable to a direct-response television marketing campaign that began in 2014 and concluded in the first quarter of 2016.

HSN's cost of sales as a percentage of net revenue was 65.4%, 66.1% and 64.5% for the years ended December 31, 2017, 2016 and 2015 respectively. The decrease for the year ended December 31, 2017, as compared to the prior year, was primarily attributed to increased product margins and a favorable inventory obsolescence provision, partially offset by higher freight costs driven largely by annual rate increases with HSN’s outbound shipping carriers. The increase for the year ended December 31, 2016 was primarily attributed to lower shipping revenues and higher fulfillment and shipping costs resulting from issues with the implementation of HSN's warehouse automation initiative. Shipping and handling costs were also impacted by changes in product mix and annual rate increases with HSN's outbound shipping carriers.

HSN's SG&A expenses (excluding stock-based compensation and acquisition-related costs) include personnel, commissions, information technology, order processing and customer service expenses, credit card processing fees, credit card income, provision for doubtful accounts, productions costs and marketing and advertising expense. These expenses increased $8 million, and as a percentage of net revenue, increased from 23.5% to 25.2% for the year ended December 31, 2017, as compared to the prior year. The increase in SG&A expense was primarily due to higher personnel costs of $8 million and an increase in bad debt expense of $5 million related to HSN's Flexpay program, partially offset by lower marketing expense of $8 million. The increase in personnel costs was primarily due to higher bonus expense and higher wages driven by annual merit increases. The decrease in marketing expense is due to lower digital marketing costs and due to advertising and media costs incurred in the prior year related to the expansion of HSN's wholesale business and direct-response television business. The increase in expense as a percentage of net revenue was driven by the deleveraging of fixed costs due to the decrease in net sales and due to the increases in bonus and bad debt expenses.

HSN's SG&A expenses decreased $23 million, and as a percentage of revenue decreased from 23.7% to 23.5% for the year ended December 31, 2016, as compared to 2015. The SG&A expense decrease was primarily due to a $11 million decline in bad debt expense driven by higher loss rates from HSN's Flexpay program in the prior year. The decrease is also due to decreases in personnel costs, including performance-based incentives of $10 million. There was also a $9 million decrease in media costs related to direct-response television business. These decreases were partially offset by higher commissions expense of $7 million primarily due to expanded coverage of HSN2, an increase in digital marketing and an increase in consulting costs.

Stock-based compensation includes compensation related to stock appreciation rights and restricted stock units granted to certain employees. HSN recorded $17 million, $15 million and $14 million of stock-based compensation expense for the years ended December 31, 2017, 2016 and 2015, respectively. Stock-based compensation in 2017 included the acceleration of vesting of certain awards for employees terminated in connection with the Merger, offset by the cancellation of awards as a result of the resignation of HSN's former CEO in 2017.

HSN's depreciation and amortization expense increased $2 million and remained flat for the years ended December 31, 2017 and 2016, respectively, as compared to the corresponding prior years. The increase in 2017 is primarily attributed to additions related to HSN's warehouse automation initiative.

Included in HSN's operating income for the year ended December 31, 2017 are allocated acquisition-related costs of $69 million primarily related to investment banking fees, legal fees and severance-related costs. Of the $38 million of acquisition costs recorded by the Company for the two day period after the acquisition, $30 million related to severance and bonus payments is included in the amount reported by HSN. The additional $8 million recorded by the Company related to accelerated vesting of stock options, was not included in HSN's acquisition-related costs, and has been included in Selling, general and administrative, including stock-based compensation expense in the accompanying consolidated statements of operations.

zulily

Liberty acquired zulily on October 1, 2015, and zulily's results are only included in Liberty's results for periods subsequent to October 1, 2015. We believe a discussion of zulily's stand alone results, including certain one-time purchase accounting related adjustments detailed below, promotes a better understanding of the overall results of its business.

zulily's operating results for the last three years were as follows:

	Years ended December 31, 2017	December 31, 2016	December 31, 2015 (1)
	amounts in millions		
Net revenue	$ 1,613	1,547	1,361
Cost of sales	(1,195)	(1,108)	(978)
Operating expenses	(47)	(47)	(43)
SG&A expenses (excluding stock-based compensation and acquisition related expenses)	(280)	(280)	(269)
Adjusted OIBDA	91	112	71
Acquisition related expenses	—	—	(30)
Stock-based compensation	(18)	(19)	(19)
Depreciation and amortization	(202)	(245)	(83)
Deferred revenue adjustment	—	—	(17)
Operating income (loss)	$ (129)	(152)	(78)

(1) zulily has reclassified certain costs between financial statement line items to conform with Liberty's reporting structure for ease of comparability for the period ended December 31, 2015.

Net revenue consists primarily of sales of women's, children's and men's apparel, children's merchandise and other product categories such as home, beauty and personalized products. zulily recognizes product sales at the time all revenue recognition criteria has been met, which is generally at delivery. Net revenue represents the sales of these items plus shipping and handling charges to customers, net of estimated refunds, store credits, and promotional discounts. Net revenue is primarily driven by growth in zulily's active customers, the frequency with which customers purchase and average order value.

zulily's consolidated net revenue increased 4.3% and 13.7% for the years ended December 31, 2017 and December 31, 2016, respectively, as compared to the corresponding prior years. The increase in net revenue for the year ended December 31, 2017 was primarily attributed to a 5.1% increase in orders placed driven by a 15.9% increase in active customers year over year, coming from accelerated growth in the fourth quarter. Along with the increase in orders placed, units per order also increased but was offset by lower average sales price per unit. The increase in net revenue for the year ended December 31, 2016 was primarily attributed to an increase in total orders placed of 14.5%, driven by a 14.1% increase in the number of orders placed per active customer. An active customer is defined as an individual who had purchased at least once in the last twelve months, measured from the last day of the period.

zulily's cost of sales as a percentage of net revenue was 74.1%, 71.6% and 71.9% for the years ended December 31, 2017, 2016 and 2015, respectively. The increase for the year ended December 31, 2017 was primarily attributed to higher free shipping and promotional offers, as well as higher supply chain expenses resulting from an increase in international shipping, a shift in product mix, ramping up of zulily's Pennsylvania fulfillment center and growth of its third-party fulfillment services and higher unit volume at a lower average sales price per unit. The decrease for the year ended December 31, 2016 was primarily attributed to improved operational efficiency, partially offset by higher shipping and handling costs.

zulily's operating expenses are principally comprised of credit card processing fees and customer service expenses. Operating expenses remained flat and increased $4 million, or 9.3%, for the years ended December 31, 2017 and 2016, respectively. The increase in operating expenses was primarily attributed to an increase in credit card processing fees which are driven by higher sales volume.

zulily's SG&A expenses include personnel related costs for general corporate functions, marketing and advertising expenses, information technology, and the costs associated with the use by these functions of facilities and equipment, including rent. As a percentage of net revenue, SG&A decreased from 18.1% to 17.4% for the year ended December 31, 2017 primarily due to a shift in marketing and advertising spend to promotional offers.

zulily's SG&A expenses increased $11 million, and as a percentage of net revenue decreased from 19.8% to 18.1% for the year ended December 31, 2016. The SG&A expense increase was primarily due to an increase in overall marketing spend. The decrease in expense as a percentage of net revenue was driven by top line revenue growth over a partially fixed cost base.

zulily's stock-based compensation expense decreased slightly for the year ended December 31, 2017 as compared to the corresponding period in the prior year primarily due to the transfer of certain senior leadership to QVC. zulily's stock-based compensation expense remained flat for the year ended December 31, 2016, compared to the corresponding period in the prior year.

zulily's depreciation and amortization expense decreased $43 million and increased $162 million for the years ended December 31, 2017 and 2016, respectively, as compared to the corresponding prior years. The decrease for the year ended December 31, 2017 as compared to the prior year was primarily attributable to the decelerating amortization of intangible assets recognized in purchase accounting. The increase for the year ended December 31, 2016 as compared to the prior year was primarily attributed to amortization of intangible assets as a result of purchase accounting. To a lesser extent, the increase in depreciation and amortization was related to additional automation equipment and leasehold improvements in its fulfillment centers.

zulily's results for the year ended December 31, 2015, including certain one-time purchase accounting related adjustments, were as follows (amounts in millions):

	Post-Acquisition: October 1, 2015 - December 31, 2015	Deferred Revenue Adjustment	Pre-Acquisition: December 29, 2014 - September 30, 2015	2015 Total
Net revenue	$ 426	17	918	1,361
Cost of sales	(318)	—	(660)	(978)
Operating expenses	(13)	—	(30)	(43)
SG&A expenses (excluding stock-based compensation and acquisition related expenses)	(74)	—	(195)	(269)
Adjusted OIBDA	21	17	33	71
Acquisition related expenses	—	—	(30)	(30)
Stock-based compensation	(5)	—	(14)	(19)
Depreciation and amortization	(69)	—	(14)	(83)
Deferred revenue adjustment	—	(17)	—	(17)
Operating income (loss)	$ (53)	—	(25)	(78)

The results of operations for the year ended December 31, 2015 include approximately $30 million in costs associated with the closing of the acquisition. The results of operations for the period October 1, 2015 through December 31, 2015 include approximately $63 million of depreciation and amortization as a result of purchase accounting related to new intangible assets and to a lesser extent stepped up valuation on assets existing prior to the date of the acquisition. Additionally, as a result of our application of purchase accounting, zulily's deferred revenue was adjusted to fair value, based on a broader market margin, instead of a company specific margin. This adjustment had the one-time impact of lowering revenue and Adjusted OIBDA in the post-acquisition period.

Quantitative and Qualitative Disclosures about Market Risk.

We are exposed to market risk in the normal course of business due to our ongoing investing and financial activities and the conduct of operations by our subsidiaries in different foreign countries. Market risk refers to the risk of loss arising from adverse changes in stock prices, interest rates and foreign currency exchange rates. The risk of loss can be assessed from the perspective of adverse changes in fair values, cash flows and future earnings. We have established policies, procedures and internal processes governing our management of market risks and the use of financial instruments to manage our exposure to such risks.

We are exposed to changes in interest rates primarily as a result of our borrowing and investment activities, which include investments in fixed and floating rate debt instruments and borrowings used to maintain liquidity and to fund business operations. The nature and amount of our long-term and short-term debt are expected to vary as a result of future requirements, market conditions and other factors. We manage our exposure to interest rates by maintaining what we believe is an appropriate mix of fixed and variable rate debt. We believe this best protects us from interest rate risk. We have achieved this mix by (i) issuing fixed rate debt that we believe has a low stated interest rate and significant term to maturity, (ii) issuing variable rate debt with appropriate maturities and interest rates and (iii) entering into interest rate swap arrangements when we deem appropriate. As of December 31, 2017, our debt is comprised of the following amounts:

	Variable rate debt		Fixed rate debt	
	Principal amount	Weighted avg interest rate	Principal amount	Weighted avg interest rate
	dollar amounts in millions			
QVC Group				
QVC	$ 1,496	3.0 %	$ 3,719	4.6 %
HSNi	$ 460	3.1 %	$ —	— %
zulily	$ 267	3.0 %	$ —	— %
Corporate and other	$ —	— %	$ 792	8.3 %
Ventures Group				
Corporate and other	$ —	— %	$ 1,947	3.0 %

We are exposed to changes in stock prices primarily as a result of our significant holdings in publicly traded securities. We continually monitor changes in stock markets, in general, and changes in the stock prices of our holdings, specifically. We believe that changes in stock prices can be expected to vary as a result of general market conditions, technological changes, specific industry changes and other factors. We periodically use equity collars and other financial instruments to manage market risk associated with certain investment positions. These instruments, when utilized, are recorded at fair value based on option pricing models.

At December 31, 2017, the fair value of our AFS securities was $2,275 million. Had the market price of such securities been 10% lower at December 31, 2017, the aggregate value of such securities would have been $228 million lower. Our investments in FTD and LendingTree are publicly traded securities and are accounted for as equity method affiliates, which are not reflected at fair value in our balance sheets. The aggregate fair value of such securities was $1,171 million at December 31, 2017 and had the market price of such securities been 10% lower at December 31, 2017, the aggregate value of such securities would have been $117 million lower. These securities are also subject to market risk that is not directly reflected in our statements of operations. At December 31, 2017, the fair value of our investment in Liberty Broadband was $3,635 million. Had the market price of such security been 10% lower at December 31, 2017, the fair value of such security would have been $364 million lower. Additionally, our exchangeable senior debentures are also subject to market risk. Because we mark these instruments to fair value each reporting date, increases in the price of the respective underlying security generally result in higher liabilities and unrealized losses in our statements of operations.

Liberty is exposed to foreign exchange rate fluctuations related primarily to the monetary assets and liabilities and the financial results of QVC's foreign subsidiaries. Assets and liabilities of foreign subsidiaries for which the functional currency is the local currency are translated into U.S. dollars at period-end exchange rates, and the statements of operations are generally translated at the average exchange rate for the period. Exchange rate fluctuations on translating foreign currency financial statements into U.S. dollars that result in unrealized gains or losses are referred to as translation adjustments. Cumulative translation adjustments are recorded in accumulated other comprehensive earnings (loss) as a separate component of stockholders' equity. Transactions denominated in currencies other than the functional currency are recorded based on exchange rates at the time such transactions arise. Subsequent changes in exchange rates result in transaction gains and losses, which are reflected in income as unrealized (based on period-end translations) or realized upon settlement of the transactions. Cash flows from our operations in foreign countries are translated at the average rate for the period. Accordingly, Liberty may experience economic loss and a negative impact on earnings and equity with respect to our holdings solely as a result of foreign currency exchange rate fluctuations. QVC's reported Adjusted OIBDA for the year ended December 31, 2017 would have been impacted by approximately $5 million for every 1% change in foreign currency exchange rates relative to the U.S. Dollar.

We periodically assess the effectiveness of our derivative financial instruments. With regard to interest rate swaps, we monitor the fair value of interest rate swaps as well as the effective interest rate the interest rate swap yields, in comparison to historical interest rate trends. We believe that any losses incurred with regard to interest rate swaps would be largely offset by the effects of interest rate movements on the underlying debt facilities. These measures allow our management to evaluate the success of our use of derivative instruments and to determine when to enter into or exit from derivative instruments.

Financial Statements and Supplementary Data.

The consolidated financial statements of Liberty are included herein, beginning on page F-33.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Controls and Procedures.

Disclosure Controls and Procedures

In accordance with Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the Company carried out an evaluation, under the supervision and with the participation of management, including its chief executive officer and its principal accounting and financial officer (the "Executives"), of the effectiveness of its disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Executives concluded that the Company's disclosure controls and procedures were effective as of December 31, 2017 to provide reasonable assurance that information required to be disclosed in its reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

Changes in Internal Control Over Financial Reporting

The Company acquired HSNi in December 2017. As a result of the acquisition, the Company is reviewing the internal controls of HSNi and is making appropriate changes as deemed necessary. Except for the changes in internal control at HSNi, there has been no change in the Company's internal control over financial reporting that occurred during the three months ended December 31, 2017 that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

See page F-29 for Management's Report on Internal Control Over Financial Reporting.

See page F-30 for KPMG LLP's attestation report regarding the effectiveness of our internal control over financial reporting.

Other Information.

None.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Liberty Interactive Corporation’s (the “Company”) management is responsible for establishing and maintaining adequate internal control over the Company’s financial reporting, as such term is defined in Rule 13a-15(f) of the Securities Exchange Act of 1934. The Company’s internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

The Company's management assessed the effectiveness of internal control over financial reporting as of December 31, 2017, using the criteria in *Internal Control-Integrated Framework (2013),* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation the Company's management believes that, as of December 31, 2017, its internal control over financial reporting is effective. The Company's assessment of internal control over financial reporting did not include the internal controls of HSN, Inc. (“HSNi”) which the Company acquired on December 29, 2017. The amount of total assets and revenue of HSNi included in our consolidated financial statements as of and for the year ended December 31, 2017 was $3.0 billion and zero, respectively.

The Company's independent registered public accounting firm that audited the consolidated financial statements and related disclosures in the Annual Report has issued an audit report on the effectiveness of the Company's internal control over financial reporting. This report appears on page F-30 of this Annual Report.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Liberty Interactive Corporation:

Opinion on Internal Control Over Financial Reporting

We have audited Liberty Interactive Corporation and subsidiaries' (the "Company") internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company as of December 31, 2017 and 2016, and the related consolidated statements of operations, comprehensive earnings (loss), cash flows, and equity for each of the years in the three-year period ended December 31, 2017, and related notes, and our report dated March 1, 2018 expressed an unqualified opinion on those consolidated financial statements.

The Company acquired HSN, Inc. during 2017, and management excluded from its assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2017, HSN, Inc.'s internal control over financial reporting associated with total assets of $3,011 million and total revenues of zero included in the consolidated financial statements of the Company as of and for the year ended December 31, 2017. Our audit of internal control over financial reporting of the Company also excluded an evaluation of the internal control over financial reporting of HSN, Inc.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

/s/ KPMG LLP

Denver, Colorado
March 1, 2018

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Liberty Interactive Corporation:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Liberty Interactive Corporation and subsidiaries (the "Company") as of December 31, 2017 and 2016, the related consolidated statements of operations, comprehensive earnings (loss), cash flows, and equity for each of the years in the three-year period ended December 31, 2017, and the related notes (collectively, the "consolidated financial statements"). In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 1, 2018 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

We did not audit the financial statements of HSN, Inc., a wholly-owned subsidiary, which statements reflect certain assets constituting $786 million as of December 31, 2017. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for HSN, Inc., is based solely on the report of the other auditors.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits and the report of the other auditors provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company's auditor since 1995.

Denver, Colorado
March 1, 2018

LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2017 and 2016

	2017	2016
Assets	amounts in millions	
Current assets:		
Cash and cash equivalents	$ 903	825
Trade and other receivables, net	1,726	1,308
Inventory, net.	1,411	968
Other current assets.	125	68
Total current assets	4,165	3,169
Investments in available-for-sale securities and other cost investments (note 8)	2,363	1,922
Investments in affiliates, accounted for using the equity method (note 9)	309	581
Investment in Liberty Broadband measured at fair value (note 9).	3,635	3,161
Property and equipment, at cost	2,564	2,163
Accumulated depreciation	(1,223)	(1,032)
	1,341	1,131
Intangible assets not subject to amortization (note 10):		
Goodwill	7,082	6,052
Trademarks	3,929	3,302
	11,011	9,354
Intangible assets subject to amortization, net (note 10)	1,248	1,005
Other assets, at cost, net of accumulated amortization	50	32
Total assets.	$ 24,122	20,355

(continued)

LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets (Continued)

December 31, 2017 and 2016

	2017	2016
	amounts in millions	
Liabilities and Equity		
Current liabilities:		
Accounts payable	$ 1,151	790
Accrued liabilities	1,125	706
Current portion of debt, including $978 million and $862 million measured at fair value (note 11)	996	876
Other current liabilities	169	162
Total current liabilities	3,441	2,534
Long-term debt, including $868 million and $805 million measured at fair value (note 11)	7,553	7,166
Deferred income tax liabilities (note 12)	2,803	3,636
Other liabilities	242	158
Total liabilities	14,039	13,494
Equity		
Stockholders' equity (note 13):		
Preferred stock, $.01 par value. Authorized 50,000,000 shares; no shares issued	—	—
Series A QVC Group common stock, $.01 par value. Authorized 4,000,000,000 shares; issued and outstanding 449,335,940 shares at December 31, 2017 and 429,005,932 shares at December 31, 2016	5	5
Series B QVC Group common stock, $.01 par value. Authorized 150,000,000 shares; issued and outstanding 29,203,895 shares at December 31, 2017 and 29,358,638 shares at December 31, 2016	—	—
Series A Liberty Ventures common stock, $.01 par value. Authorized 400,000,000 shares at December 31, 2017 and December 31, 2016; issued and outstanding 81,686,659 shares at December 31, 2017 and 81,150,711 shares at December 31, 2016	1	1
Series B Liberty Ventures common stock, $.01 par value. Authorized 15,000,000 shares at December 31, 2017 and December 31, 2016; issued and outstanding 4,455,311 shares at December 31, 2017 and 4,271,958 shares at December 31, 2016	—	—
Additional paid-in capital	1,043	—
Accumulated other comprehensive earnings (loss), net of taxes	(133)	(266)
Retained earnings	9,068	7,032
Total stockholders' equity	9,984	6,772
Noncontrolling interests in equity of subsidiaries	99	89
Total equity	10,083	6,861
Commitments and contingencies (note 18)		
Total liabilities and equity	$ 24,122	20,355

See accompanying notes to consolidated financial statements.

LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES

Consolidated Statements Of Operations

Years ended December 31, 2017, 2016 and 2015

	2017	2016	2015
	amounts in millions, except per share amounts		
Total revenue, net	$ 10,404	10,647	9,989
Operating costs and expenses:			
Cost of retail sales (exclusive of depreciation shown separately below)	6,789	6,908	6,393
Operating expense	659	707	699
Selling, general and administrative, including stock-based compensation (note 3)	1,153	1,190	1,078
Acquisition and restructuring charges	35	—	—
Depreciation and amortization	725	874	703
	9,361	9,679	8,873
Operating income	1,043	968	1,116
Other income (expense):			
Interest expense	(355)	(363)	(360)
Share of earnings (losses) of affiliates, net (note 9)	(200)	(68)	(178)
Realized and unrealized gains (losses) on financial instruments, net (note 7)	618	1,175	114
Gains (losses) on transactions, net	410	9	110
Other, net	7	131	14
	480	884	(300)
Earnings (loss) from continuing operations before income taxes	1,523	1,852	816
Income tax (expense) benefit (note 12)	964	(598)	(185)
Earnings (loss) from continuing operations	2,487	1,254	631
Earnings (loss) from discontinued operations, net of taxes (note 6)	—	20	280
Net earnings (loss)	2,487	1,274	911
Less net earnings (loss) attributable to the noncontrolling interests	46	39	42
Net earnings (loss) attributable to Liberty Interactive Corporation shareholders	$ 2,441	1,235	869
Net earnings (loss) attributable to Liberty Interactive Corporation shareholders:			
QVC Group common stock	1,208	473	640
Liberty Ventures common stock	1,233	762	229
	$ 2,441	1,235	869
Basic net earnings (loss) from continuing operations attributable to Liberty Interactive Corporation shareholders per common share (note 3):			
Series A and Series B QVC Group common stock	$ 2.71	0.99	1.35
Series A and Series B Liberty Ventures common stock	$ 14.34	5.54	(0.36)
Diluted net earnings (loss) from continuing operations attributable to Liberty Interactive Corporation shareholders per common share (note 3):			
Series A and Series B QVC Group common stock	$ 2.70	0.98	1.33
Series A and Series B Liberty Ventures common stock	$ 14.17	5.49	(0.36)
Basic net earnings (loss) attributable to Liberty Interactive Corporation shareholders per common share (note 3):			
Series A and Series B QVC Group common stock	$ 2.71	0.99	1.35
Series A and Series B Liberty Ventures common stock	$ 14.34	5.69	1.61
Diluted net earnings (loss) attributable to Liberty Interactive Corporation shareholders per common share (note 3):			
Series A and Series B QVC Group common stock	$ 2.70	0.98	1.33
Series A and Series B Liberty Ventures common stock	$ 14.17	5.64	1.60

See accompanying notes to consolidated financial statements.

LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES

Consolidated Statements Of Comprehensive Earnings (Loss)

Years ended December 31, 2017, 2016 and 2015

	2017	2016	2015
	amounts in millions		
Net earnings (loss)	$ 2,487	1,274	911
Other comprehensive earnings (loss), net of taxes:			
Foreign currency translation adjustments	134	(84)	(101)
Share of other comprehensive earnings (loss) of equity affiliates	3	(5)	(4)
Other	—	4	(17)
Other comprehensive earnings (loss)	137	(85)	(122)
Comprehensive earnings (loss)	2,624	1,189	789
Less comprehensive earnings (loss) attributable to the noncontrolling interests	50	40	41
Comprehensive earnings (loss) attributable to Liberty Interactive Corporation shareholders	$ 2,574	1,149	748
Comprehensive earnings (loss) attributable to Liberty Interactive Corporation shareholders:			
QVC Group common stock	$ 1,338	388	540
Liberty Ventures common stock	1,236	761	208
	$ 2,574	1,149	748

See accompanying notes to consolidated financial statements.

LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES

Consolidated Statements Of Cash Flows

Years ended December 31, 2017, 2016 and 2015

	2017	2016	2015
	amounts in millions (See note 4)		
Cash flows from operating activities:			
Net earnings (loss)	$ 2,487	1,274	911
Adjustments to reconcile net earnings to net cash provided by operating activities:			
(Earnings) loss from discontinued operations	—	(20)	(280)
Depreciation and amortization	725	874	703
Stock-based compensation	123	97	127
Cash payments for stock-based compensation	—	(92)	(16)
Noncash interest expense	—	12	5
Share of (earnings) losses of affiliates, net	200	68	178
Cash receipts from returns on equity investments	29	31	32
Realized and unrealized (gains) losses on financial instruments, net	(618)	(1,175)	(114)
(Gains) losses on transactions, net	(410)	(9)	(110)
(Gains) losses on extinguishment of debt	—	6	21
Deferred income tax expense (benefit)	(1,136)	473	(103)
Other noncash charges (credits), net	10	(115)	(11)
Changes in operating assets and liabilities			
Current and other assets	(143)	136	(237)
Payables and other liabilities	225	(117)	(44)
Net cash provided (used) by operating activities	1,492	1,443	1,062
Cash flows from investing activities:			
Cash (paid) for acquisitions, net of cash acquired	22	—	(844)
Cash proceeds from dispositions of investments	3	353	271
Investment in and loans to cost and equity investees	(159)	(86)	(120)
Cash receipts from returns of equity investments	—	—	250
Capital expended for property and equipment	(204)	(233)	(258)
Purchases of short term investments and other marketable securities	—	(264)	(1,370)
Sales of short term investments and other marketable securities	—	1,174	1,359
Investment in Liberty Broadband	—	(2,400)	—
Other investing activities, net	(53)	(36)	(76)
Net cash provided (used) by investing activities	(391)	(1,492)	(788)
Cash flows from financing activities:			
Borrowings of debt	2,469	3,427	4,558
Repayments of debt	(2,631)	(4,498)	(3,811)
Repurchases of QVC Group common stock	(765)	(799)	(785)
Withholding taxes on net share settlements of stock-based compensation	(70)	(16)	(30)
Distribution from Liberty Expedia Holdings	—	299	—
Other financing activities, net	(39)	15	(54)
Net cash provided (used) by financing activities	(1,036)	(1,572)	(122)
Effect of foreign currency exchange rates on cash	13	(20)	(3)
Net cash provided (used) by discontinued operations:			
Cash provided (used) by operating activities	—	17	17
Cash provided (used) by investing activities	—	—	(23)
Cash provided (used) by financing activities	—	—	—
Change in available cash held by discontinued operations	—	—	—
Net cash provided (used) by discontinued operations	—	17	(6)
Net increase (decrease) in cash and cash equivalents	78	(1,624)	143
Cash and cash equivalents at beginning of period	825	2,449	2,306
Cash and cash equivalents at end of period	$ 903	825	2,449

See accompanying notes to consolidated financial statements.

LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES

Consolidated Statements Of Equity

Years ended December 31, 2017, 2016 and 2015

	Stockholders' Equity								Noncontrolling interest in equity of subsidiaries	Total equity
		QVC Group		Liberty Ventures						
	Preferred Stock	Series A	Series B	Series A	Series B	Additional paid-in capital	Accumulated other comprehensive earnings (loss), net of taxes	Retained Earnings		
	amounts in millions									
Balance at January 1, 2015	$ —	5	—	1	—	4	(94)	5,757	107	5,780
Net earnings	—	—	—	—	—	—	—	869	42	911
Other comprehensive earnings (loss)	—	—	—	—	—	—	(121)	—	(1)	(122)
Stock-based compensation	—	—	—	—	—	70	—	—	—	70
Minimum withholding taxes on net share settlements of stock-based compensation	—	—	—	—	—	(30)	—	—	—	(30)
Excess tax benefits on stock-based compensation	—	—	—	—	—	16	—	—	—	16
Stock issued upon exercise of stock options	—	—	—	—	—	40	—	—	—	40
Series A QVC Group stock repurchases	—	—	—	—	—	(785)	—	—	—	(785)
Distribution to noncontrolling interest	—	—	—	—	—	—	—	—	(58)	(58)
Acquisition of zulily	—	—	—	—	—	1,087	—	—	—	1,087
Acquisition of noncontrolling interest	—	—	—	—	—	(31)	—	—	(2)	(33)
Other	—	—	—	—	—	(1)	—	—	—	(1)
Balance at December 31, 2015	$ —	5	—	1	—	370	(215)	6,626	88	6,875
Net earnings	—	—	—	—	—	—	—	1,235	39	1,274
Other comprehensive earnings (loss)	—	—	—	—	—	—	(86)	—	1	(85)
Cumulative effect of accounting change	—	—	—	—	—	—	—	5	—	5
Stock-based compensation	—	—	—	—	—	89	—	—	—	89
Withholding taxes on net share settlements of stock-based compensation	—	—	—	—	—	(16)	—	—	—	(16)
Stock issued upon exercise of stock options	—	—	—	—	—	24	—	—	—	24
Series A QVC Group stock repurchases	—	—	—	—	—	(799)	—	—	—	(799)
Distribution to noncontrolling interest	—	—	—	—	—	—	—	—	(39)	(39)
Distribution of Liberty Expedia Holdings	—	—	—	—	—	—	35	(493)	—	(458)
Reclassification	—	—	—	—	—	341	—	(341)	—	—
Other	—	—	—	—	—	(9)	—	—	—	(9)
Balance at December 31, 2016	$ —	5	—	1	—	—	(266)	7,032	89	6,861
Net earnings	—	—	—	—	—	—	—	2,441	46	2,487
Other comprehensive earnings (loss)	—	—	—	—	—	—	133	—	4	137
Stock-based compensation	—	—	—	—	—	123	—	—	—	123
Series A QVC Group stock repurchases	—	—	—	—	—	(765)	—	—	—	(765)
Distribution to noncontrolling interest	—	—	—	—	—	—	—	—	(40)	(40)
Stock issued upon exercise of stock options	—	—	—	—	—	5	—	—	—	5
Withholding taxes on net share settlements of stock-based compensation	—	—	—	—	—	(70)	—	—	—	(70)
Issuance of Series A QVC Group stock in connection HSNi acquisition (note 5)	—	—	—	—	—	1,343	—	—	—	1,343
Reclassification	—	—	—	—	—	405	—	(405)	—	—
Other	—	—	—	—	—	2	—	—	—	2
Balance at December 31, 2017	$ —	5	—	1	—	1,043	(133)	9,068	99	10,083

See accompanying notes to consolidated financial statements.

(1) Basis of Presentation

The accompanying consolidated financial statements include the accounts of Liberty Interactive Corporation (formerly known as Liberty Media Corporation) and its controlled subsidiaries (collectively, "Liberty," the "Company," "we," "us," and "our") unless the context otherwise requires). All significant intercompany accounts and transactions have been eliminated in consolidation.

Liberty, through its ownership of interests in subsidiaries and other companies, is primarily engaged in the video and online commerce industries in North America, Europe and Asia.

On October 1, 2015, Liberty acquired all the outstanding shares of zulily, inc. ("zulily") (now known as zulily, llc). zulily is an online retailer offering customers a fun and entertaining shopping experience with a fresh selection of new product styles launched every day. zulily is attributed to the QVC Group. See note 5 for additional information related to the acquisition.

On July 22, 2016, Liberty completed the spin-off (the "CommerceHub Spin-Off") of its former wholly-owned subsidiary CommerceHub, Inc. ("CommerceHub"). The CommerceHub Spin-Off was accomplished by the distribution by Liberty of a dividend of (i) 0.1 of a share of CommerceHub's Series A common stock for each outstanding share of Liberty's Series A Liberty Ventures common stock as of 5:00 p.m., New York City time, on July 8, 2016 (such date and time, the "Record Date"), (ii) 0.1 of a share of CommerceHub's Series B common stock for each outstanding share of Liberty's Series B Liberty Ventures common stock as of the Record Date and (iii) 0.2 of a share of CommerceHub's Series C common stock for each outstanding share of Series A and Series B Liberty Ventures common stock as of the Record Date, in each case, with cash paid in lieu of fractional shares. In September 2016, the IRS completed its review of the CommerceHub Spin-Off and informed Liberty that it agreed with the nontaxable characterization of the transaction. Liberty received an Issue Resolution Agreement from the Internal Revenue Service ("IRS") documenting this conclusion. CommerceHub is included in Liberty's Corporate and other segment through July 22, 2016 and is not presented as a discontinued operation as the CommerceHub Spin-Off did not represent a strategic shift that had a major effect on Liberty's operations and financial results.

On November 4, 2016, Liberty completed the split-off (the "Expedia Holdings Split-Off") of its former wholly-owned subsidiary Liberty Expedia Holdings, Inc. ("Expedia Holdings"). At the time of the Expedia Holdings Split-Off, Expedia Holdings was comprised of, among other things, Liberty's former interest in Expedia, Inc. ("Expedia") and Liberty's former wholly-owned subsidiary Bodybuilding. On November 2, 2016, Expedia Holdings borrowed $350 million under a new margin loan and distributed $299 million, net of certain debt related costs, to Liberty on November 4, 2016. The Expedia Holdings Split-Off was accomplished by the redemption of (i) 0.4 of each outstanding share of Liberty's Series A Liberty Ventures common stock for 0.4 of a share of Expedia Holdings Series A common stock at 5:00 p.m., New York City time, on November 4, 2016 (such date and time, the "Redemption Date") and (ii) 0.4 of each outstanding share of Liberty's Series B Liberty Ventures common stock for 0.4 of a share of Expedia Holdings Series B common stock on the Redemption Date, in each case, with cash paid in lieu of any fractional shares of Liberty Ventures common stock or Expedia Holdings common stock (after taking into account all of the shares owned of record by each holder thereof, as applicable). In February 2017, the IRS completed its review of the Expedia Holdings Split-Off and informed Liberty that it agreed with the nontaxable characterization of the transaction. Liberty received an Issue Resolution Agreement from the IRS documenting this conclusion.

Liberty viewed Expedia and Bodybuilding as separate components and evaluated them separately for discontinued operations presentation. Based on a quantitative analysis, the split-off of Liberty's interest in Expedia represented a strategic shift that had a major effect on Liberty's operations, primarily due to one-time gains on transactions recognized by Expedia in 2015. Accordingly, the consolidated financial statements of Liberty have been prepared to reflect Liberty's interest in Expedia as a discontinued operation. The disposition of Bodybuilding as part of the Expedia Holdings Split-Off does not have a major effect on Liberty's historical results nor is it expected to have a major effect on Liberty's future operations. The disposition of Bodybuilding did not represent a strategic shift in Liberty's operations. Accordingly, Bodybuilding is not presented as a discontinued operation in the consolidated financial statements of Liberty. Bodybuilding is included in the Corporate and other segment through November 4, 2016.

Pursuant to a reimbursement agreement entered into in connection with the Expedia Holdings Split-Off, Liberty reimbursed Expedia, a related party prior to the Expedia Holdings Split-Off, $4 million during October 2016, thereby settling the reimbursement agreement.

Liberty and Liberty Media Corporation ("LMC") (for accounting purposes a related party of Liberty) entered into certain agreements in order to govern certain of the ongoing relationships between the two companies. These agreements include a reorganization agreement, a services agreement, a facilities sharing agreement and a tax sharing agreement.

The Tax Sharing Agreement provides for the allocation and indemnification of tax liabilities and benefits between Liberty and LMC and other agreements related to tax matters. Liberty is party to on-going discussions with the IRS under the Compliance Assurance Process audit program. The IRS may propose adjustments that relate to tax attributes allocated to and income allocable to LMC. Any potential outcome associated with any proposed adjustments would be covered by the Tax Sharing Agreement and are not expected to have any impact on Liberty's financial position. Pursuant to the Services Agreement, LMC will provide Liberty with general and administrative services including legal, tax, accounting, treasury and investor relations support. Liberty will reimburse LMC for direct, out-of-pocket expenses incurred by LMC in providing these services and for Liberty's allocable portion of costs associated with any shared services or personnel based on an estimated percentage of time spent providing services to Liberty. Under the Facilities Sharing Agreement, Liberty will share office space with LMC and related amenities at LMC's corporate headquarters. Under these various agreements approximately $11 million, $10 million and $13 million of these allocated expenses were reimbursed from Liberty to LMC for the years ended December 31, 2017, 2016 and 2015, respectively.

(2) Tracking Stocks

Tracking stocks are a type of common stock that the issuing company intends to reflect or "track" the economic performance of a particular business or "group," rather than the economic performance of the company as a whole. Liberty has two tracking stocks—QVC Group common stock and Liberty Ventures common stock, which are intended to track and reflect the economic performance of Liberty's QVC Group and Ventures Group, respectively. While the QVC Group and the Ventures Group have separate collections of businesses, assets and liabilities attributed to them, no group is a separate legal entity and therefore cannot own assets, issue securities or enter into legally binding agreements. Holders of tracking stock have no direct claim to the group's stock or assets and are not represented by separate boards of directors. Instead, holders of tracking stock are stockholders of the parent corporation, with a single board of directors and subject to all of the risks and liabilities of the parent corporation.

The term "Ventures Group" does not represent a separate legal entity, rather it represents those businesses, assets and liabilities that have been attributed to that group. The Ventures Group consists of our businesses not included in the QVC Group including Evite, Inc. ("Evite") and our interests in Liberty Broadband Corporation ("Liberty Broadband"), LendingTree, Inc. ("LendingTree"), FTD Companies, Inc. ("FTD"), investments in Charter Communications, Inc. ("Charter Communications, Inc.") and ILG, Inc. ("ILG"), as well as cash in the amount of approximately $573 million (at December 31, 2017), including subsidiary cash. The Ventures Group also has attributed to it certain liabilities related to our Exchangeable Debentures and certain deferred tax liabilities. The Ventures Group is primarily focused on the maximization of the value of these investments and investing in new business opportunities.

On April 4, 2017, Liberty entered into an Agreement and Plan of Reorganization (as amended, the “GCI Reorganization Agreement” and the transactions contemplated thereby, the “Transactions”) with General Communication, Inc. (“GCI”), an Alaska corporation, and Liberty Interactive LLC, a Delaware limited liability company and a direct wholly-owned subsidiary of Liberty (“LI LLC”), whereby Liberty will acquire GCI through a reorganization in which certain Ventures Group assets and liabilities will be contributed to GCI Liberty (as defined below) in exchange for a controlling interest in GCI Liberty. Liberty and LI LLC will contribute to GCI Liberty its entire equity interest in Liberty Broadband and Charter, along with, subject to certain exceptions, Liberty’s entire equity interests in LendingTree, together with the Evite operating business and certain other assets and liabilities, in exchange for (i) the issuance to LI LLC of a number of shares of new GCI Liberty Class A Common Stock and a number of shares of new GCI Liberty Class B Common Stock equal to the number of outstanding shares of Series A Liberty Ventures common stock and Series B Liberty Ventures common stock outstanding on the closing date of the Contribution, respectively, (ii) cash and (iii) the assumption of certain liabilities by GCI Liberty (the “Contribution”).

Liberty will then effect a tax-free separation of its controlling interest in the combined company (which has since been renamed GCI Liberty, Inc. (“GCI Liberty”)) to the holders of Liberty Ventures common stock, distributing one share of the corresponding class of new GCI Liberty common stock for each share of Liberty Ventures common stock held, in full redemption of all outstanding shares of such stock, leaving QVC Group common stock as the only outstanding common stock of Liberty. On the business day prior to the Contribution, holders of reclassified GCI Class A Common Stock and reclassified GCI Class B Common Stock each will receive (i) 0.63 of a share of new GCI Liberty Class A Common Stock and (ii) 0.20 of a share of new GCI Liberty Series A Cumulative Redeemable Preferred Stock (the “GCI Liberty preferred stock”) in exchange for each share of their reclassified GCI stock. The exchange ratios were determined based on total consideration of $32.50 per share for existing GCI common stock, comprised of $27.50 per share in new GCI Liberty Class A Common Stock and $5.00 per share in newly issued GCI Liberty preferred stock, and a Liberty Ventures reference price of $43.65 (with no additional premium paid for shares of reclassified GCI Class B Common Stock). The GCI Liberty Series A preferred stock will accrue dividends at an initial rate of 5% per annum (which would increase to 7% in connection with a future reincorporation of GCI Liberty in Delaware) and will be redeemable upon the 21st anniversary of the closing of the Transactions.

At the closing of the Transactions, Liberty will reattribute certain assets and liabilities from the Ventures Group to the QVC Group (the “Reattribution”). The reattributed assets and liabilities are expected to include cash, Liberty’s interest in ILG, FTD, certain green energy investments, LI LLC’s exchangeable debentures, and certain tax benefits. Pursuant to a recent amendment to the GCI Reorganization Agreement, LI LLC’s 1.75% Exchangeable Debentures due 2046 (the “1.75% Exchangeable Debentures”) will not be subject to a pre-closing exchange offer and will instead be reattributed to the QVC Group, along with (i) an amount of cash equal to the net present value of the adjusted principal amount of such 1.75% Exchangeable Debentures (determined as if paid on October 5, 2023) and stated interest payments on the 1.75% Exchangeable Debentures to October 5, 2023 and (ii) an indemnity obligation from GCI Liberty with respect to any payments made by LI LLC in excess of stated principal and interest to any holder that exercises its exchange right under the terms of the debentures through October 5, 2023. The cash reattributed to the QVC Group will be funded by available cash attributed to Liberty’s Ventures Group and the proceeds of a margin loan facility attributed to the Ventures Group in an initial principal amount of $1 billion. Within six months of the closing, Liberty, LI LLC and GCI Liberty will cooperate with, and reasonably assist each other with respect to, the commencement and consummation of a purchase offer (the “Purchase Offer”) whereby LI LLC will offer to purchase, either pursuant to privately negotiated transactions or a tender offer, the 1.75% Exchangeable Debentures on terms and conditions (including maximum offer price) reasonably acceptable to GCI Liberty. GCI Liberty will indemnify LI LLC for each 1.75% Exchangeable Debenture repurchased by LI LLC in the Purchase Offer in an amount equal to the difference between (x) the purchase price paid by LI LLC to acquire such 1.75% Exchangeable Debenture in the Purchase Offer and (y) the sum of the amount of cash reattributed with respect to such purchased 1.75% Exchangeable Debenture in the Reattribution plus the amount of certain tax benefits attributable to such 1.75% Exchangeable Debenture so purchased. GCI Liberty's indemnity obligation with respect to payments made upon a holder's exercise of its exchange right will be eliminated as to any 1.75% Exchangeable Debentures purchased in the Purchase Offer.

On December 29, 2017, Broadband Holdco, LLC, a wholly owned subsidiary of the Company, entered into a margin loan agreement with an availability of $1 billion with various lender parties. Approximately 42.7 million shares of Liberty Broadband series C common stock held by the Company with a value of $3.6 billion were pledged by Broadband Holdco, LLC as collateral to the loan as of December 31, 2017. This margin loan has a term of two years and bears interest at a rate of LIBOR plus 1.85% and contains an undrawn commitment fee of 0.75% per annum. As of December 31, 2017 there were no outstanding borrowings on the margin loan.

Liberty will complete the Reattribution using similar valuation methodologies to those used in connection with its previous reattributions, including taking into account the advice of its financial advisor. The Transactions are expected to be consummated on March 9, 2018, subject to the satisfaction of customary closing conditions. Simultaneous with that closing, QVC Group common stock will become the only outstanding common stock of Liberty, and thus QVC Group common stock will cease to function as a tracking stock and will effectively become regular common stock, and Liberty will be renamed Qurate Retail Group, Inc., with QVC, HSNi and zulily as wholly-owned subsidiaries.

The term "QVC Group" does not represent a separate legal entity, rather it represents those businesses, assets and liabilities that have been attributed to that group. The QVC Group is primarily comprised of our merchandise-focused televised-shopping programs, Internet and mobile application businesses. The QVC Group has attributed to it the remainder of our businesses and assets not attributed to the Ventures Group, including our wholly-owned subsidiaries QVC and zulily (as of October 1, 2015) and HSN, Inc. ("HSNi") (as of December 29, 2017) as well as cash in the amount of approximately $330 million (at December 31, 2017), including subsidiary cash.

On May 18, 2016, Liberty completed a $2.4 billion investment in Liberty Broadband (for accounting purposes a related party of the Company) in connection with the merger of Charter and Time Warner Cable Inc. ("TWC"). The proceeds of this investment were used by Liberty Broadband to fund, in part, its acquisition of $5 billion of stock in the new public parent company ("Charter") of the combined enterprises. Liberty, along with third party investors, all of whom invested on the same terms as Liberty, purchased newly issued shares of Liberty Broadband Series C common stock at a per share price of $56.23, which was determined based upon the fair value of Liberty Broadband's net assets on a sum-of-the-parts basis at the time the investment agreements were executed (May 2015). Liberty's investment in Liberty Broadband was funded using cash on hand and is attributed to the Ventures Group. See note 9 for additional information related to this investment.

Liberty, as part of the merger of Charter and TWC described above, exchanged, in a tax-free transaction, its shares of TWC common stock for shares of Charter Class A common stock, on a one-for-one basis, and Liberty has granted to Liberty Broadband a proxy and a right of first refusal with respect to the shares of Charter Class A common stock held by Liberty in the exchange.

See page F-86 of this Annual Report for unaudited attributed financial information for Liberty's tracking stock groups.

(3) Summary of Significant Accounting Policies

Cash and Cash Equivalents

Cash equivalents consist of investments which are readily convertible into cash and have maturities of three months or less at the time of acquisition.

Receivables

Receivables are reflected net of an allowance for doubtful accounts and sales returns. A provision for bad debts is provided as a percentage of accounts receivable based on historical experience and included in selling, general and administrative expense. A provision for vendor receivables are determined based on an estimate of probable expected losses and included in cost of retail sales.

A summary of activity in the allowance for doubtful accounts is as follows:

	Balance beginning of year	Additions Charged to expense	Additions Other	Deductions- write-offs	Balance end of year
	amounts in millions				
2017	$ 99	73	(1)	(79)	92
2016	$ 87	109	(1)	(96)	99
2015	$ 92	84	(1)	(88)	87

Inventory

Inventory, consisting primarily of products held for sale, is stated at the lower of cost or market. Cost is determined by the average cost method, which approximates the first-in, first-out method. Assessments about the realizability of inventory require the Company to make judgments based on currently available information about the likely method of disposition including sales to individual customers, returns to product vendors, liquidations and the estimated recoverable values of each disposition category. Inventory is stated net of inventory obsolescence reserves of $93 million and $76 million for the years ended December 31, 2017 and 2016, respectively.

In July 2015, the Financial Accounting Standards Board ("FASB") issued new accounting guidance that changes the measurement principle for inventory from the lower of cost or market to lower of cost and net realizable value. The new principle is part of the FASB's simplification initiative and applies to entities that measure inventory using a method other than last-in, first-out or the retail inventory method. The new standard is effective for the Company for fiscal years and interim periods beginning after December 15, 2016. The Company has determined there is no significant effect of the standard on its ongoing financial reporting.

Investments

All marketable equity and debt securities held by the Company are classified as available-for-sale ("AFS") and are carried at fair value generally based on quoted market prices. United States ("U.S.") generally accepted accounting principles ("GAAP") permit entities to choose to measure many financial instruments, such as AFS securities, and certain other items at fair value and to recognize the changes in fair value of such instruments in the entity's statements of operations (the "fair value option"). Liberty had previously entered into economic hedges for certain of its non-strategic

AFS securities (although such instruments were not accounted for as fair value hedges by the Company). Changes in the fair value of these economic hedges were reflected in Liberty's statements of operations as unrealized gains (losses). In order to better match the changes in fair value of the subject AFS securities and the changes in fair value of the corresponding economic hedges in the Company's financial statements, Liberty has elected the fair value option for those of its AFS securities which it considers to be non-strategic ("Fair Value Option Securities"). Accordingly, changes in the fair value of Fair Value Option Securities, as determined by quoted market prices, are reported in realized and unrealized gains (losses) on financial instruments in the accompanying consolidated statements of operations. The total value of AFS securities for which the Company has elected the fair value option aggregated $2,275 million and $1,846 million as of December 31, 2017 and 2016, respectively.

Other investments in which the Company's ownership interest is less than 20%, unless the Company has the ability to exercise significant influence, and that are not considered marketable securities are carried at cost.

For those investments in affiliates in which the Company has the ability to exercise significant influence, the equity method of accounting is used, except in situations where the fair value option has been selected. Under the equity method of accounting, the investment, originally recorded at cost, is adjusted to recognize the Company's share of net earnings or losses of the affiliate as they occur rather than as dividends or other distributions are received. Losses are limited to the extent of the Company's investment in, advances to and commitments for the investee. In the event the Company is unable to obtain accurate financial information from an equity affiliate in a timely manner, the Company records its share of earnings or losses of such affiliate on a lag.

Changes in the Company's proportionate share of the underlying equity of an equity method investee, which result from the issuance of additional equity securities by such equity investee, are recognized in the statements of operations through the Other, net line item. To the extent there is a difference between our ownership percentage in the underlying equity of an equity method investee and our carrying value, such difference is accounted for as if the equity method investee were a consolidated subsidiary.

The Company continually reviews its equity investments and its AFS securities which are not Fair Value Option Securities to determine whether a decline in fair value below the carrying value is other than temporary. The primary factors the Company considers in its determination are the length of time that the fair value of the investment is below the Company's carrying value; the severity of the decline; and the financial condition, operating performance and near term prospects of the investee. In addition, the Company considers the reason for the decline in fair value, be it general market conditions, industry specific or investee specific; analysts' ratings and estimates of 12 month share price targets for the investee; changes in stock price or valuation subsequent to the balance sheet date; and the Company's intent and ability to hold the investment for a period of time sufficient to allow for a recovery in fair value. If the decline in fair value is deemed to be other than temporary, the carrying value of the security is written down to fair value. In situations where the fair value of an investment is not evident due to a lack of a public market price or other factors, the Company uses its best estimates and assumptions to arrive at the estimated fair value of such investment. The Company's assessment of the foregoing factors involves considerable management judgment and accordingly, actual results may differ materially from the Company's estimates and judgments. Writedowns for AFS securities which are not Fair Value Option Securities would be included in the consolidated statements of operations as other than temporary declines in fair values of investments. Writedowns for equity method investments would be included in share of earnings (losses) of affiliates.

In January 2016, the FASB issued new accounting guidance that is intended to improve the recognition and measurement of financial instruments. The new guidance requires equity investments with readily determinable fair values (except those accounted for under the equity method of accounting or those that result in consolidation) to be measured at fair value with changes in fair value recognized in net income and simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. The new standard is effective for the Company for fiscal years and interim periods beginning after December 15, 2017, with early adoption permitted under certain circumstances. The Company plans to adopt this standard during the first quarter of 2018 and does not expect that the adoption will have a material effect on its consolidated financial statements.

Derivative Instruments and Hedging Activities

All of the Company's derivatives, whether designated in hedging relationships or not, are recorded on the balance sheet at fair value. If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings. If the derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded in other comprehensive earnings and are recognized in the statements of operations when the hedged item affects earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognized in earnings. If the derivative is not designated as a hedge, changes in the fair value of the derivative are recognized in earnings.

The Company generally enters into derivative contracts that it intends to designate as a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge). For all hedging relationships, the Company formally documents the hedging relationship and its risk management objective and strategy for undertaking the hedge, the hedging instrument, the hedged item, the nature of the risk being hedged, how the hedging instrument's effectiveness in offsetting the hedged risk will be assessed prospectively and retrospectively, and a description of the method of measuring ineffectiveness. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting cash flows of hedged items. Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a cash flow hedge are recorded in accumulated other comprehensive income to the extent that the derivative is effective as a hedge, until earnings are affected by the variability in cash flows of the designated hedged item. The ineffective portion of the change in fair value of a derivative instrument that qualifies as a cash flow hedge is reported in earnings.

Property and Equipment

Property and equipment consisted of the following:

	December 31, 2017	December 31, 2016
	amounts in millions	
Land	$ 108	81
Buildings and improvements	1,165	1,016
Support equipment	1,240	1,034
Projects in progress	51	32
Total property and equipment	$ 2,564	2,163

Property and equipment, including significant improvements, is stated at cost. Depreciation is computed using the straight-line method using estimated useful lives of 2 to 15 years for support equipment and 8 to 20 years for buildings and improvements. Depreciation expense for the years ended December 31, 2017, 2016 and 2015 was $176 million, $171 million and $153 million, respectively.

Intangible Assets

Intangible assets with estimable useful lives are amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment upon certain triggering events. Goodwill and other intangible assets with indefinite useful lives (collectively, "indefinite lived intangible assets") are not amortized, but instead are tested for impairment at least annually. Our annual impairment assessment of our indefinite-lived intangible assets is performed during the fourth quarter of each year.

In January 2017, the FASB issued new accounting guidance to simplify the measurement of goodwill impairment. Under the new guidance, an entity no longer performs a hypothetical purchase price allocation to measure goodwill impairment. Instead, a goodwill impairment is measured using the difference between the carrying value and the fair value of the reporting unit. The Company early adopted this guidance during the fourth quarter of 2017.

In evaluating goodwill on a qualitative basis, the Company reviews the business performance of each reporting unit and evaluates other relevant factors as identified in the relevant accounting guidance to determine whether it was more likely than not that an indicated impairment exists for any of our reporting units. The Company considers whether there are any negative macroeconomic conditions, industry specific conditions, market changes, increased competition, increased costs in doing business, management challenges, the legal environments and how these factors might impact company specific performance in future periods. As part of the analysis the Company also considers fair value determinations for certain reporting units that have been made at various points throughout the current year and prior year for other purposes. If based on the qualitative analysis it is more likely than not that an impairment exists, the Company performs the quantitative impairment test.

The quantitative goodwill impairment test compares the estimated fair value of a reporting unit to its carrying value. Developing estimates of fair value requires significant judgments, including making assumptions about appropriate discount rates, perpetual growth rates, relevant comparable market multiples, public trading prices and the amount and timing of expected future cash flows. The cash flows employed in Liberty's valuation analyses are based on management's best estimates considering current marketplace factors and risks as well as assumptions of growth rates in future years. There is no assurance that actual results in the future will approximate these forecasts.

The accounting guidance also permits entities to first perform a qualitative assessment to determine whether it is more likely than not that an indefinite-lived intangible asset, other than goodwill, is impaired. The accounting guidance also allows entities the option to bypass the qualitative assessment for any indefinite-lived intangible asset in any period and proceed directly to the quantitative impairment test. The entity may resume performing the qualitative assessment in any subsequent period. If the qualitative assessment supports that it is more likely than not that the carrying value of the Company's indefinite-lived intangible assets, other than goodwill, exceeds its fair value, then a quantitative assessment is performed. If the carrying value of an indefinite-lived intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess.

Impairment of Long-lived Assets

The Company periodically reviews the carrying amounts of its property and equipment and its intangible assets (other than goodwill and indefinite-lived intangible assets) to determine whether current events or circumstances indicate that such carrying amounts may not be recoverable. If the carrying amount of the asset group is greater than the expected undiscounted cash flows to be generated by such asset group, including its ultimate disposition, an impairment adjustment is to be recognized. Such adjustment is measured by the amount that the carrying value of such asset groups exceeds their fair value. The Company generally measures fair value by considering sale prices for similar asset groups or by discounting estimated future cash flows using an appropriate discount rate. Considerable management judgment is necessary to estimate the fair value of asset groups. Accordingly, actual results could vary significantly from such estimates. Asset groups to be disposed of are carried at the lower of their financial statement carrying amount or fair value less costs to sell.

Noncontrolling Interests

The Company reports noncontrolling interests of subsidiaries within equity in the balance sheet and the amount of consolidated net income attributable to the parent and to the noncontrolling interest is presented in the statements of operations. Also, changes in ownership interests in subsidiaries in which the Company maintains a controlling interest are recorded in equity.

Foreign Currency Translation

The functional currency of the Company is the U.S. Dollar. The functional currency of the Company's foreign operations generally is the applicable local currency for each foreign subsidiary. Assets and liabilities of foreign subsidiaries are translated at the spot rate in effect at the applicable reporting date, and the consolidated statements of operations are translated at the average exchange rates in effect during the applicable period. The resulting unrealized cumulative translation adjustment, net of applicable income taxes, is recorded as a component of accumulated other comprehensive earnings in stockholders' equity.

Transactions denominated in currencies other than the functional currency are recorded based on exchange rates at the time such transactions arise. Subsequent changes in exchange rates result in transaction gains and losses which are reflected in the accompanying consolidated statements of operations and comprehensive earnings (loss) as unrealized (based on the applicable period-end exchange rate) or realized upon settlement of the transactions. These realized and unrealized gains and losses are reported in the Other, net line item in the consolidated statements of operations.

Revenue Recognition

Retail revenue is recognized at the time of delivery to customers. The revenue for shipments in-transit is recorded as deferred revenue and included in other current liabilities. Additionally, service revenue, which is less than one percent of overall revenue, is recognized when the applicable criteria are met: persuasive evidence of an arrangement exists, services have been rendered, the price is fixed and determinable and collectability is reasonably assured.

An allowance for returned merchandise is provided as a percentage of sales based on historical experience. The total reduction in sales due to returns for the years ended December 31, 2017, 2016 and 2015 aggregated $1,861 million, $1,865 million and $2,037 million, respectively. Sales tax collected from customers on retail sales is recorded on a net basis and is not included in revenue.

A summary of activity in the allowance for sales returns, is as follows:

	Balance beginning of year	Additions - charged to earnings	Deductions	Balance end of year
		in millions		
2017	$ 98	1,027	(1,023)	102
2016	$ 106	1,051	(1,060)	98
2015	$ 109	1,213	(1,216)	106

In May 2014, the FASB issued new accounting guidance on revenue from contracts with customers. The new guidance requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. This new guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. In March 2016, the FASB issued additional guidance which clarifies principal versus agent considerations, and in April 2016, the FASB issued further guidance which clarifies the identification of performance obligations and the implementation guidance for licensing. The updated guidance will replace most existing revenue recognition guidance in GAAP when it becomes effective and permits the use of either a full retrospective or modified retrospective transition method. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, and early adoption is permitted only for fiscal years beginning after December 15, 2016. The Company will adopt the accounting guidance effective as of January 1, 2018 with an immaterial adjustment to retained earnings using the modified transition method. The Company has completed our review of the applicable ASU and has concluded it will recognize revenue at the time of shipment to its customers consistent with when title passes. This is a change from the current practice whereby the Company recognizes revenue at the time of delivery to the customers and deferred revenue is recorded to account for the shipments in-transit. The Company has also concluded that it will continue to act as principal in certain vendor arrangements and will recognize credit card income for its QVC-branded credit card as part of net revenue. At the current time, the credit card income is included as an offset to selling, general, and administrative expenses. In addition, the Company's balance sheet presentation of its sales return reserve will change to present a separate return asset and liability, instead of the net presentation currently used. The Company will also elect the practical expedient to not adjust the promised amount of consideration for the effects of a significant financing component when its payment terms are less than one year, as well as the practical expedient to exclude from the measurement of the transaction price sales and similar taxes collected from customers.

Cost of Sales

Cost of sales primarily includes actual product cost, provision for obsolete inventory, buying allowances received from suppliers, shipping and handling costs and warehouse costs.

Advertising Costs

Advertising costs generally are expensed as incurred. Advertising expense aggregated $217 million, $231 million and $154 million for the years ended December 31, 2017, 2016 and 2015, respectively. Advertising costs are reflected in the selling, general and administrative, including stock-based compensation line item in our consolidated statements of operations.

Stock-Based Compensation

As more fully described in note 15, the Company has granted to its directors, employees and employees of its subsidiaries options, restricted stock and stock appreciation rights relating to shares of QVC Group and/or Liberty Ventures common stock ("Liberty common stock") (collectively, "Awards"). The Company measures the cost of employee services received in exchange for an Award of equity instruments (such as stock options and restricted stock) based on the grant-date fair value ("GDFV") of the Award, and recognizes that cost over the period during which the employee is required to provide service (usually the vesting period of the Award). The Company measures the cost of employee services received in exchange for an Award of liability instruments (such as stock appreciation rights that will be settled in cash) based on the current fair value of the Award, and remeasures the fair value of the Award at each reporting date.

Stock compensation expense was $123 million, $97 million and $127 million for the years ended December 31, 2017, 2016 and 2015, respectively, included in selling, general and administrative expense in the accompanying consolidated statements of operations.

In March 2016, the FASB issued new guidance which simplifies several aspects of the accounting for share-based payment award transactions, including the income tax consequences, forfeitures, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The new standard is effective for the Company for fiscal years and interim periods beginning after December 15, 2016, with early application permitted. The Company adopted this guidance in the third quarter of 2016. In accordance with the new guidance, excess tax benefits and tax deficiencies are recognized as income tax benefit or expense rather than as additional paid-in capital. The Company has elected to recognize forfeitures as they occur rather than continue to estimate expected forfeitures. In addition, pursuant to the new guidance, excess tax benefits are classified as an operating activity on the consolidated statements of cash flows. The recognition of excess tax benefits and deficiencies are applied prospectively from January 1, 2016. For tax benefits that were not previously recognized and for adjustments to compensation cost based on actual forfeitures, the Company has recorded a cumulative-effect adjustment in retained earnings as of January 1, 2016. The presentation changes for excess tax benefits have been applied retrospectively in the consolidated statements of cash flows, resulting in $33 million of excess tax benefits for the year ended December 31, 2015 reclassified from cash flows from financing activities to cash flows from operating activities.

Income Taxes

The Company accounts for income taxes using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying value amounts and income tax bases of assets and liabilities and the expected benefits of utilizing net operating loss and tax credit carryforwards. The deferred tax assets and liabilities are calculated using enacted tax rates in effect for each taxing jurisdiction in which the Company operates for the year in which those temporary differences are expected to be recovered or settled. Net deferred tax assets are then reduced by a valuation allowance if the Company believes it more likely than not such net deferred tax assets will not be realized. The effect on deferred tax assets and liabilities of an enacted change in tax rates is recognized in income in the period that includes the enactment date.

When the tax law requires interest to be paid on an underpayment of income taxes, the Company recognizes interest expense from the first period the interest would begin accruing according to the relevant tax law. Such interest expense is included in interest expense in the accompanying consolidated statements of operations. Any accrual of penalties related to underpayment of income taxes on uncertain tax positions is included in other income (expense) in the accompanying consolidated statements of operations.

In October 2016, the FASB issued new guidance amending the accounting for income taxes associated with intra-entity transfers of assets other than inventory. This accounting update, which is part of the FASB's simplification initiative, is intended to reduce diversity in practice and the complexity of tax accounting, particularly for those transfers involving intellectual property. This new guidance requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The new standard is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017 with early adoption permitted. We anticipate an immaterial retained earnings decrease upon adoption related to the unrecognized income tax effects of asset transfers that occurred prior to adoption.

Earnings (Loss) Attributable to Liberty Stockholders and Earnings (Loss) Per Common Share

Net earnings (loss) attributable to Liberty stockholders is comprised of the following (amounts in millions):

	Years ended December 31,		
	2017	2016	2015
QVC Group			
Net earnings (loss) from continuing operations	$ 1,208	473	640
Net earnings (loss) from discontinued operations	$ NA	NA	NA
Liberty Ventures			
Net earnings (loss) from continuing operations	$ 1,233	742	(51)
Net earnings (loss) from discontinued operations	$ —	20	280

Basic earnings (loss) per common share ("EPS") is computed by dividing net earnings (loss) attributable to such common stock by the weighted average number of common shares outstanding for the period. Diluted EPS presents the dilutive effect on a per share basis of potential common shares as if they had been converted at the beginning of the periods presented.

Series A and Series B QVC Group Common Stock

EPS for all periods through December 31, 2017, is based on the following weighted average shares outstanding. Excluded from diluted EPS for the years ended December 31, 2017, 2016 and 2015 are approximately 20 million, 13 million and 6 million potential common shares, respectively, because their inclusion would be antidilutive.

	Years ended December 31,		
	2017	2016	2015
	number of shares in millions		
Basic WASO	445	476	475
Potentially dilutive shares	3	5	6
Diluted WASO	448	481	481

Series A and Series B Liberty Ventures Common Stock

EPS for all periods through December 31, 2017, is based on the following weighted average shares outstanding. Excluded from diluted EPS for the years ended December 31, 2017, 2016, and 2015 are less than a million potential common shares because their inclusion would be antidilutive.

	Years ended December 31,		
	2017	2016	2015
	number of shares in millions		
Basic WASO	86	134	142
Potentially dilutive shares	1	1	1
Diluted WASO	87	135	143

Reclasses and adjustments

Certain prior period amounts have been reclassified for comparability with the current year presentation.

As a result of repurchases of Series A QVC Group common stock, the Company’s additional paid-in capital balance was in a deficit position in certain quarterly periods during the year ended December 31, 2017. In order to maintain a zero balance in the additional paid-in capital account, we reclassified the amount of the deficit ($405 million) at December 31, 2017 to retained earnings.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Liberty considers (i) recurring and non-recurring fair value measurements, (ii) accounting for income taxes, (iii) assessments of other-than-temporary declines in fair value of its investments and (iv) estimates of retail-related adjustments and allowances to be its most significant estimates.

Liberty holds investments that are accounted for using the equity method. Liberty does not control the decision making process or business management practices of these affiliates. Accordingly, Liberty relies on management of these affiliates to provide it with accurate financial information prepared in accordance with GAAP that Liberty uses in the application of the equity method. In addition, Liberty relies on audit reports that are provided by the affiliates' independent auditors on the financial statements of such affiliates. The Company is not aware, however, of any errors in or possible misstatements of the financial information provided by its equity affiliates that would have a material effect on Liberty's consolidated financial statements.

New Accounting Pronouncements Not Yet Adopted

In February 2016, the FASB issued new guidance which revises the accounting for leases. Under the new guidance, lessees will be required to recognize a lease liability and a right-of-use asset for all leases. The new guidance also simplifies the accounting for sale and leaseback transactions. The new standard, to be applied via a modified retrospective transition approach, is effective for the Company for fiscal years and interim periods beginning after December 15, 2018, with early adoption permitted. The Company has not yet determined the effect of the standard on its ongoing financial reporting. The Company is currently working with its consolidated subsidiaries to evaluate the impact of the adoption of this new guidance on our consolidated financial statements, including identifying the population of leases, evaluating technology solutions and collecting lease data.

(4) Supplemental Disclosures to Consolidated Statements of Cash Flows

	Years ended December 31,		
	2017	2016	2015
	amounts in millions		
Cash paid for acquisitions:			
Fair value of assets acquired	$ 956	—	154
Intangible assets not subject to amortization	1,577	7	1,791
Intangible assets subject to amortization	651	(40)	837
Net liabilities assumed	(977)	—	(214)
Deferred tax assets (liabilities)	(281)	33	(637)
Fair value of equity consideration	(1,948)	—	(1,087)
Cash paid (received) for acquisitions, net of cash acquired	$ (22)	—	844
Cash paid for interest	$ 343	354	374
Cash paid for income taxes	$ 158	204	318

(5) Acquisitions

On December 29, 2017, Liberty acquired the approximately 62% of HSNi it did not already own in an all-stock transaction making HSNi a wholly-owned subsidiary, attributed to the QVC Group. HSNi shareholders (other than Liberty) received fixed consideration of 1.65 shares of Series A QVC Group common stock ("QVCA") for each share of HSNi common stock. Liberty issued 53.6 million shares QVCA common stock to HSNi shareholders. In conjunction with application of acquisition accounting, we recorded a full step up in basis of HSNi which resulted in a $409 million gain. The fair market value of our ownership interest previously held in HSNi ($605 million) was determined based on the trading price of QVCA common stock on the date of the acquisition (Level 1) less a control premium. The market value of the shares of QVCA common stock issued to HSNi shareholders ($1.3 billion) was determined based on the trading price of QVCA common stock on the date of the acquisition. The total equity value of the transaction was $1.9 billion. With the exception of $43 million of severance-related costs incurred on December 30, 2017, HSNi's results of operations are not included in our consolidated operating results for the year ended December 31, 2017, as the final two days of the period were considered immaterial.

The preliminary purchase price allocation for HSNi is as follows (amounts in millions):

Cash and cash equivalents	$ 22
Property and equipment	214
Other assets	752
Goodwill	950
Trademarks	676
Intangible assets subject to amortization	602
Accounts payable & accrued liabilities	(515)
Debt	(460)
Other liabilities assumed	(12)
Deferred tax liabilities	(281)
	$ 1,948

Goodwill is calculated as the excess of the consideration transferred over the identifiable net assets acquired and represents the future economic benefits expected to arise from other intangible assets acquired that do not qualify for separate recognition, including assembled workforce, value associated with future customers, continued innovation and noncontractual relationships. Intangible assets acquired during 2017 were comprised of customer relationships of $425 million with a weighted average life of approximately 9 years, capitalized software of $16 million with a weighted average life of approximately 1 year, and technology of $161 million with a weighted average life of approximately 7 years. None of the acquired goodwill is expected to be deductible for tax purposes. As of December 31, 2017, the valuation related to the purchase is not final and the purchase price allocation is preliminary and subject to revision. The primary areas of the purchase price allocation that are not yet finalized are related to certain fixed and intangible assets, liabilities and tax balances.

Included in net earnings (loss) from continuing operations for the year ended December 31, 2017 is $43 million related to HSNi's operations since the date of acquisition, which is primarily related to severance cost post acquisition. Of the $43 million, $38 million related to HSN ($8 million of which related to stock-based compensation expense and is included in Selling, general and administrative, including stock-based compensation expense in the consolidated statements of operations) and $5 million related to Cornerstone.

The pro forma revenue and net earnings from continuing operations of Liberty, prepared utilizing the historical financial statements of HSNi, giving effect to purchase accounting related adjustments made at the time of acquisition, as if the transaction discussed above occurred on January 1, 2016, are as follows:

	Years Ended December 31,	
	2017	2016
	amounts in millions (unaudited)	
Revenue	$ 13,791	14,220
Net earnings (loss) from continuing operations	2,200	1,258

The pro forma information is not representative of Liberty's future financial position, future results of operations or future cash flows nor does it reflect what Liberty's financial position, results of operations or cash flows would have been as if the transaction had happened previously and Liberty controlled HSNi during the periods presented. The pro forma information includes a nonrecurring adjustment for transactions costs incurred as a result of the acquisition.

On October 1, 2015, Liberty acquired zulily for consideration of approximately $2.3 billion, comprised of $9.375 of cash and 0.3098 newly issued shares of QVCA for each zulily share, with cash paid in lieu of any fractional shares. The fair value of the issued shares was determined based on the trading price of QVCA shares on the last trading day prior to the acquisition. Funding for the $1.2 billion cash portion of the consideration came from cash on hand at zulily and a distribution from QVC funded by a drawdown under its revolving credit facility (see note 11). zulily is attributed to the QVC Group.

The final purchase price allocation for zulily is as follows (amounts in millions):

Cash and cash equivalents	$ 341
Property and equipment	105
Other assets	46
Goodwill	917
Trademarks	870
Intangible assets subject to amortization	790
Accounts payable & accrued liabilities	(145)
Other liabilities assumed	(65)
Deferred tax liabilities	(607)
	$ 2,252

Intangible assets acquired during 2015 were comprised of customer relationships of $490 million with a weighted average life of approximately 4 years, email lists of $250 million with a weighted average life of approximately 2 years, and capitalized software of $50 million with a weighted average life of approximately 3 years. None of the acquired goodwill is deductible for tax purposes. Subsequent to December 31, 2015, the preliminary purchase price allocation was adjusted, resulting in decreases of $50 million to trademarks, $40 million to intangible assets subject to amortization and $33 million to deferred tax liabilities and a corresponding increase of $57 million to goodwill. If these adjustments had been recorded as of the acquisition date, amortization expense would have been approximately $3 million lower for the period ended December 31, 2015. There have been no other significant changes to our purchase price allocation since December 31, 2015.

Included in net earnings (loss) from continuing operations for the year ended December 31, 2015 is $34 million related to zulily's operations since the date of acquisition.

(6) Disposals

Disposals - Presented as Discontinued Operations

On November 4, 2016, Liberty completed the Expedia Holdings Split-Off. Expedia Holdings is comprised of, among other things, Liberty's former interest in Expedia, Inc. and Liberty's former wholly-owned subsidiary Bodybuilding. Liberty views Expedia and Bodybuilding as separate components and evaluated them separately for discontinued operations presentation. Based on a quantitative analysis, the split-off of Liberty's interest in Expedia represents a strategic shift that has a major effect on Liberty's operations, primarily due to prior year one-time gains on transactions recognized by Expedia. Accordingly, the consolidated financial statements of Liberty have been prepared to reflect Liberty's interest in Expedia as a discontinued operation. The disposition of Bodybuilding as part of the Expedia Holdings Split-Off does not have a major effect on Liberty's historical results nor is it expected to have a major effect on Liberty's future operations. The disposition of Bodybuilding does not represent a strategic shift in Liberty's operations. Accordingly, Bodybuilding is not presented as a discontinued operation in the consolidated financial statements of Liberty. See "Disposals – Not Presented as Discontinued Operations" below for additional information regarding Bodybuilding.

Prior to the Expedia Holdings Split-Off, Liberty accounted for the investment in Expedia as an equity method affiliate and recorded our share of Expedia's earnings (losses) in our consolidated statements of operations. Accordingly, Expedia's assets, liabilities and results of operations were not included in Liberty's consolidated financial statements. Certain financial information for Expedia for the periods prior to the Expedia Holdings Split-Off is as follows:

	December 31, 2015	
	amounts in millions	
Current assets	$	2,976
Total assets	$	15,486
Current liabilities	$	5,926
Total liabilities	$	10,556
Equity	$	4,930

	Year ended December 31, 2015	
	amounts in millions	
Operating income	$	414
Gain on sale of business	$	509
Income tax (expense) benefit	$	(203)
Net earnings (loss) attributable to Expedia shareholders	$	764

Certain financial information for Liberty's investment in Expedia, which is included in the discontinued operations line items of the consolidated Liberty balance sheets as of December 31, 2015, is as follows (amounts in millions):

	December 31, 2015	
Investments in affiliates, accounted for using the equity method	$	927
Deferred income tax liabilities	$	285

Certain financial information for Liberty's investment in Expedia, which is included in earnings (loss) from discontinued operations, is as follows (amounts in millions):

	Years ended December 31,		
		2016	2015
Earnings (loss) before income taxes	$	24	437
Income tax (expense) benefit	$	(4)	(157)

The combined impact from discontinued operations, discussed above, is as follows:

		Years ended December 31, 2016	2015
Basic earnings (loss) from discontinued operations attributable to Liberty shareholders per common share (note 3):			
Series A and Series B QVC Group common stock	$	NA	NA
Series A and Series B Liberty Ventures common stock	$	0.15	1.97
Diluted earnings (loss) from discontinued operations attributable to Liberty shareholders per common share (note 3):			
Series A and Series B QVC Group common stock	$	NA	NA
Series A and Series B Liberty Ventures common stock	$	0.15	1.96

Disposals – Not Presented as Discontinued Operations

On June 30, 2015, Liberty sold Backcountry for aggregate consideration, including assumption of debt, amounts held in escrow, and a noncontrolling interest, of approximately $350 million. The sale resulted in a $105 million gain, which is included in Gains (losses) on transactions, net in the accompanying consolidated statements of operations. Backcountry is not presented as a discontinued operation as the sale did not represent a strategic shift that has a major effect on Liberty's operations and financial results. Included in Total revenue, net in the accompanying consolidated statements of operations is $227 million for the year ended December 31, 2015, related to Backcountry. Included in Net earnings (loss) in the accompanying consolidated statements of operations are losses of $3 million for the year ended December 31, 2015, related to Backcountry.

On July 22, 2016, Liberty completed the CommerceHub Spin-Off. CommerceHub is included in the Corporate and other segment through July 22, 2016 and is not presented as a discontinued operation as the CommerceHub Spin-Off did not represent a strategic shift that had a major effect on Liberty's operations and financial results. Included in Total revenue, net in the accompanying consolidated statements of operations is $51 million and $89 million for the years ended December 31, 2016 and 2015, respectively, related to CommerceHub. Included in Net earnings (loss) in the accompanying consolidated statements of operations are earnings of $5 million and losses of $10 million for the years ended December 31, 2016 and 2015, respectively, related to CommerceHub. Included in Total assets in the accompanying consolidated balance sheets as of December 31, 2015 is $115 million related to CommerceHub.

As discussed above, on November 4, 2016, Liberty completed the Expedia Holdings Split-Off. Although Liberty's interest in Expedia has been presented as a discontinued operation, Bodybuilding is not presented as a discontinued operation in the consolidated financial statements of Liberty. Bodybuilding is included in the Corporate and other segment through November 4, 2016. Included in Total revenue, net in the accompanying consolidated statements of operations is $355 million and $464 million for the years ended December 31, 2016 and 2015, respectively, related to Bodybuilding. Included in Net earnings (loss) in the accompanying consolidated statements of operations are earnings of $6 million and $3 million for the years ended December 31, 2016 and 2015, respectively, related to Bodybuilding. Included in Total assets in the accompanying consolidated balance sheets as of December 31, 2015 is $198 million related to Bodybuilding.

(7) Assets and Liabilities Measured at Fair Value

For assets and liabilities required to be reported at fair value, GAAP provides a hierarchy that prioritizes inputs to valuation techniques used to measure fair value into three broad levels. Level 1 inputs are quoted market prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs, other than quoted market prices included within Level 1, are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. The Company does not have any recurring assets or liabilities measured at fair value that would be considered Level 3.

The Company's assets and liabilities measured at fair value are as follows:

	December 31, 2017			December 31, 2016		
Description	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)
	amounts in millions					
Cash equivalents	$ 655	655	—	625	625	—
Available-for-sale securities	$ 2,275	2,275	—	1,846	1,846	—
Investment in Liberty Broadband	$ 3,635	3,635	—	3,161	3,161	—
Debt	$ 1,846	—	1,846	1,667	—	1,667

The majority of the Company's Level 2 financial assets and liabilities are debt instruments with quoted market prices that are not considered to be traded on "active markets," as defined in GAAP. Accordingly, the debt instruments are reported in the foregoing table as Level 2 fair value.

Realized and Unrealized Gains (Losses) on Financial Instruments

Realized and unrealized gains (losses) on financial instruments are comprised of changes in the fair value of the following:

	Years ended December 31,		
	2017	2016	2015
	amounts in millions		
Fair Value Option Securities - AFS	$ 434	723	84
Fair Value Option Securities - Liberty Broadband	473	761	NA
Exchangeable senior debentures	(193)	(308)	30
Other financial instruments	(96)	(1)	—
	$ 618	1,175	114

(8) Investments in Available-for-Sale Securities and Other Cost Investments

All marketable equity and debt securities held by the Company are classified as AFS and are carried at fair value generally based on quoted market prices. GAAP permits entities to choose to measure many financial instruments, such as AFS securities, and certain other items at fair value and to recognize the changes in fair value of such instruments in the entity's statements of operations (the "fair value option"). Liberty has elected the fair value option for its AFS securities ("Fair Value Option Securities"). Accordingly, changes in the fair value of Fair Value Option Securities, as determined by quoted market prices, are reported in realized and unrealized gains (losses) on financial instruments in the accompanying consolidated statements of operations.

Investments in AFS securities, the majority of which are considered Fair Value Option Securities and other cost investments, are summarized as follows:

	December 31, 2017	December 31, 2016
	amounts in millions	
QVC Group		
Other investments	$ 3	4
Total attributed QVC Group	3	4
Ventures Group		
Charter	1,800	1,543
ILG	474	302
Other investments	86	73
Total attributed Ventures Group	2,360	1,918
Consolidated Liberty	$ 2,363	1,922

(9) Investments in Affiliates Accounted for Using the Equity Method

Liberty has various investments accounted for using the equity method. The following table includes Liberty's carrying amount and percentage ownership of the more significant investments in affiliates at December 31, 2017 and the carrying amount at December 31, 2016:

	December 31, 2017			December 31, 2016
	Percentage ownership	Market value	Carrying amount	Carrying amount
			dollars in millions	
QVC Group				
HSNi (1)	100 %	$ NA	$ NA	184
Other	various	NA	40	40
Total QVC Group			40	224
Ventures Group				
FTD (2)	37 %	$ 73	73	216
LendingTree (3)	27 %	1,098	115	31
Other (4)	various	NA	81	110
Total Ventures Group			269	357
Consolidated Liberty			$ 309	581

The following table presents Liberty's share of earnings (losses) of affiliates:

	Years ended December 31,		
	2017	2016	2015
	amounts in millions		
QVC Group			
HSNi (1)	$ 40	48	64
Other	(2)	(6)	(9)
Total QVC Group	38	42	55
Ventures Group			
FTD (2)	(146)	(41)	(83)
LendingTree (3)	7	12	2
Other (4)	(99)	(81)	(152)
Total Ventures Group	(238)	(110)	(233)
Consolidated Liberty	$ (200)	(68)	(178)

(1) As discussed in note 5, on December 29, 2017, the Company acquired the approximately 62% of HSNi it did not already own in an all-stock transaction making HSNi a wholly-owned subsidiary, attributed to the QVC Group tracking stock group. Therefore the Company no longer has an equity method investment in HSNi as of December 31, 2017. In addition, HSNi paid dividends of $28 million, $28 million, and $228 million during the years ended December 31, 2017, 2016 and 2015, respectively, which were recorded as reductions to the investment balances, and recorded as a cash inflow from operations in the Cash receipts from returns on equity investments line item in the consolidated statements of cash flows. Dividends from HSNi during the year ended December 31, 2015 included a special dividend of $10 per share from which Liberty received approximately $200 million in cash, which was recorded as a cash inflow from investing activities in the Cash receipts from returns of equity investments line item in the consolidated statements of cash flows.

(2) The carrying value of Liberty’s investment in FTD was written down to its fair value (based on the closing price (Level 1)) as of December 31, 2017 and December 31, 2015.

(3) During the year ended December 31, 2017, the Company purchased an additional 450 thousand shares of LendingTree common stock (“TREE”). In order to purchase the additional shares, Ventures Holdco, LLC, a wholly owned subsidiary of the Company executed a 2-year postpaid variable forward with a notional value of $110 million. The company pledged 642,850 shares of TREE and purchased the delta underlying of 450,000 shares for $77 million. Changes in the fair value of the derivative are reflected in the Realized and unrealized gains (losses) on financial instruments, net line item in the consolidated statements of operations. For the period ended December 31, 2017, the Company recorded an unrealized loss of $95 million.

(4) The Other category for the Ventures Group is comprised of alternative energy investments and other investments. The alternative energy investments generally operate at a loss but provide favorable tax attributes recorded through the income tax (expense) benefit line item in the consolidated statements of operations. During the year ended December 31, 2015, Liberty recorded an impairment of approximately $98 million, based on a discounted cash flow valuation (Level 3), related to one of its alternative energy investments which had underperformed operationally.

Investment in Liberty Broadband

As discussed in note 2, in connection with the merger of Charter and TWC, on May 18, 2016, Liberty invested $2.4 billion in Liberty Broadband Series C nonvoting shares. As of December 31, 2017, Liberty has a 23.5% economic ownership interest in Liberty Broadband. Due to overlapping boards of directors and management, Liberty has been deemed to have significant influence over Liberty Broadband for accounting purposes, even though Liberty does not have any voting rights. Liberty has elected to apply the fair value option for its investment in Liberty Broadband (Level 1) as it is believed that the Company's investors value this investment based on the trading price of Liberty Broadband. Liberty recognizes changes in the fair value of its investment in Liberty Broadband in realized and unrealized gains (losses) on financial instruments, net in the consolidated statements of operations.

(10) Goodwill and Other Intangible Assets

Goodwill

Changes in the carrying amount of goodwill are as follows:

	QVC	zulily	HSN	Corporate and Other	Total
	amounts in millions				
Balance at January 1, 2016	$ 5,149	860	—	103	6,112
Acquisition (1)	—	57	—	—	57
Disposition (2)	—	—	—	(78)	(78)
Foreign currency translation adjustments	(39)	—	—	—	(39)
Balance at December 31, 2016	5,110	917	—	25	6,052
Acquisition (3)	—	—	933	17	950
Foreign currency translation adjustments	80	—	—	—	80
Balance at December 31, 2017	$ 5,190	917	933	42	7,082

(1) Subsequent to December 31, 2015, the preliminary purchase price allocation for the zulily acquisition was adjusted, resulting in a $57 million increase to goodwill.

(2) As discussed in note 6, Liberty completed the CommerceHub Spin-Off on July 22, 2016, resulting in a $21 million decrease to goodwill. In addition, as discussed in note 6, Liberty completed the Expedia Holdings Split-Off on November 4, 2016, resulting in a $57 million decrease to goodwill related to Bodybuilding.

(3) As discussed in note 5, on December 29, 2017, the Company acquired the approximately 62% of HSNi it did not already own in an all-stock transaction making HSNi a wholly-owned subsidiary, attributed to the QVC Group tracking stock group. The acquisition resulted in an increase to goodwill of $950 million.

Goodwill recognized from acquisitions primarily relates to assembled workforces, website community and other intangible assets that do not qualify for separate recognition.

As presented in the accompanying consolidated balance sheets, trademarks is the other significant indefinite lived intangible asset.

Intangible Assets Subject to Amortization

Intangible assets subject to amortization are comprised of the following:

	December 31, 2017			December 31, 2016		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
			amounts in millions			
Television distribution rights	$ 730	(652)	78	2,279	(2,095)	184
Customer relationships	3,356	(2,626)	730	2,910	(2,394)	516
Other	1,268	(828)	440	965	(660)	305
Total	$ 5,354	(4,106)	1,248	6,154	(5,149)	1,005

The weighted average life of these amortizable intangible assets was approximately 9 years, at the time of acquisition. However, amortization is expected to match the usage of the related asset and will be on an accelerated basis as demonstrated in table below.

Amortization expense for intangible assets with finite useful lives was $549 million, $703 million and $550 million for the years ended December 31, 2017, 2016 and 2015, respectively. Based on its amortizable intangible assets as of December 31, 2017, Liberty expects that amortization expense will be as follows for the next five years (amounts in millions):

2018	$ 401
2019	$ 236
2020	$ 162
2021	$ 129
2022	$ 77

Impairments

As of December 31, 2017 accumulated goodwill impairment losses for certain e-commerce companies was $56 million.

(11) Debt

Debt is summarized as follows:

	Outstanding principal December 31, 2017	Carrying value December 31, 2017	Carrying value December 31, 2016
	amounts in millions		
QVC Group			
Corporate level notes and debentures			
8.5% Senior Debentures due 2029	$ 287	285	285
8.25% Senior Debentures due 2030	504	502	501
Subsidiary level notes and facilities			
QVC 3.125% Senior Secured Notes due 2019	400	399	399
QVC 5.125% Senior Secured Notes due 2022	500	500	500
QVC 4.375% Senior Secured Notes due 2023	750	750	750
QVC 4.85% Senior Secured Notes due 2024	600	600	600
QVC 4.45% Senior Secured Notes due 2025	600	599	599
QVC 5.45% Senior Secured Notes due 2034	400	399	399
QVC 5.95% Senior Secured Notes due 2043	300	300	300
QVC Bank Credit Facilities	1,763	1,763	1,896
HSNi Bank Credit Facility	460	460	NA
Other subsidiary debt	170	170	174
Deferred loan costs	—	(24)	(28)
Total QVC Group	$ 6,734	6,703	6,375
Ventures Group			
Corporate level debentures			
4% Exchangeable Senior Debentures due 2029	$ 434	316	276
3.75% Exchangeable Senior Debentures due 2030	435	318	267
3.5% Exchangeable Senior Debentures due 2031	328	342	316
0.75% Exchangeable Senior Debentures due 2043	—	2	3
1.75% Exchangeable Senior Debentures due 2046	750	868	805
Total Ventures Group	$ 1,947	1,846	1,667
Total consolidated Liberty debt	$ 8,681	8,549	8,042
Less debt classified as current		(996)	(876)
Total long-term debt		7,553	7,166

Exchangeable Senior Debentures

Each $1,000 debenture of Liberty Interactive LLC's ("Liberty LLC") 4% Exchangeable Senior Debentures is exchangeable at the holder's option for the value of 3.2265 shares of Sprint Corporation ("Sprint") common stock and 0.7860 shares of CenturyLink, Inc. ("CenturyLink") common stock. Liberty LLC may, at its election, pay the exchange value in cash, Sprint and CenturyLink common stock or a combination thereof. Liberty LLC, at its option, may redeem the debentures, in whole or in part, for cash generally equal to the face amount of the debentures plus accrued interest.

Each $1,000 debenture of Liberty LLC's 3.75% Exchangeable Senior Debentures is exchangeable at the holder's option for the value of 2.3578 shares of Sprint common stock and 0.5746 shares of CenturyLink common stock. Liberty

LLC may, at its election, pay the exchange value in cash, Sprint and CenturyLink common stock or a combination thereof. Liberty, at its option, may redeem the debentures, in whole or in part, for cash equal to the face amount of the debentures plus accrued interest.

Each $1,000 debenture of Liberty LLC's 3.5% Exchangeable Senior Debentures (the "Motorola Exchangeables") was exchangeable at the holder's option for the value of 5.2598 shares of Motorola Solutions, Inc. and 4.6024 shares of Motorola Mobility Holdings, Inc., as a result of Motorola Inc.'s separation of Motorola Mobility Holdings, Inc. ("MMI") in a 1 for 8 stock distribution, and the subsequent 1 for 7 reverse stock split of Motorola, Inc. (which has been renamed Motorola Solutions, Inc. ("MSI")), effective January 4, 2011. MMI was acquired on May 22, 2012 for $40 per share in cash. Pursuant to the indenture, the cash paid to shareholders in the MMI acquisition was to be paid to the holders of the Motorola Exchangeables as an extraordinary distribution. Liberty LLC made a cash payment of $184.096 per debenture in the second quarter of 2012 for a total payment of $111 million. The remaining exchange value is payable, at Liberty's option, in cash or MSI stock or a combination thereof. Liberty LLC, at its option, may redeem the debentures, in whole or in part, for cash generally equal to the adjusted principal amount of the debentures plus accrued interest. As a result of a cash distribution made by Liberty LLC in 2007, the cash disbursement discussed above and various principal payments made to holders of the Motorola Exchangeables, the adjusted principal amount of each $1,000 debenture is $547 as of December 31, 2017.

Each $1,000 original principal amount of the 0.75% Exchangeable Senior Debentures due 2043 is exchangeable for a basket of 3.1648 shares of common stock of Charter, 5.1635 shares of common stock of Time Warner and 0.6454 shares of Time, Inc., which may change over time to include other publicly traded common equity securities that may be distributed on or in respect of those shares of Charter and Time Warner (or into which any of those securities may be converted or exchanged). This basket of shares for which each Debenture in the original principal amount of $1,000 may be exchanged is referred to as the Reference Shares attributable to such Debenture, and to each issuer of Reference Shares as a reference company. Each Debenture is exchangeable at the option of the holder at any time, upon which they will be entitled to receive the Reference Shares attributable to such Debenture or, at the election of Liberty LLC, cash or a combination of Reference Shares and cash having a value equal to such Reference Shares. Upon exchange, holders will not be entitled to any cash payment representing accrued interest or outstanding additional distributions. Subsequent to December 31, 2017, an extraordinary additional distribution was made to the holders of the 0.75% Exchangeable Senior Debentures due 2043 in the amount of $11.9399 per $1,000 original principal of the debentures, which is attributable to the cash consideration of $18.50 per share paid to former holders of common stock of Time Inc. on January 31, 2018, in connection with the acquisition of Time Inc. by Meredith Corporation. The Company expects to pay the extraordinary additional distribution on March 1, 2018, to holders of record of the 0.75% Exchangeable Senior Debentures due 2043 on February 14, 2018, the special record date for the extraordinary additional distribution.

During the year ended December 31, 2016, holders exchanged, under the terms of the debentures, approximately $523 million principal of the 0.75% Exchangeable Senior Debentures due 2043 and Liberty made cash payments of approximately $1,181 million to settle the obligations. In addition, in conjunction with the Liberty Broadband transaction (see note 9), an extraordinary distribution of approximately $325 million was paid to holders of the 0.75% Exchangeable Senior Debentures due 2043.

In August 2016, Liberty issued $750 million principal amount of new senior exchangeable debentures due September 2046 which bear interest at an annual rate of 1.75%. Each $1,000 debenture is exchangeable at the holder's option for the value of 2.9317 shares of Charter Class A common stock. Liberty may, at its election, pay the exchange value in cash, Charter Class A common stock or a combination thereof. The number of shares of Charter Class A common stock attributable to a debenture represents an initial exchange price of approximately $341.10 per share. On October 5, 2023, Liberty, at its option, may redeem the debentures, in whole or in part, for cash generally equal to the face amount of the debentures plus accrued interest.

Liberty has elected to account for all of its Exchangeables using the fair value option. Accordingly, changes in the fair value of these instruments are recognized as unrealized gains (losses) in the statements of operations. Liberty will review the triggering events on a quarterly basis to determine whether a triggering event has occurred to require current classification of certain Exchangeables, see additional discussion below.

Liberty has sold, split-off or otherwise disposed of all of its shares of MSI, Sprint and CenturyLink common stock which underlie the respective Exchangeable Senior Debentures. Because such exchangeable debentures are exchangeable at the option of the holder at any time and Liberty can no longer use owned shares to redeem the debentures, Liberty has classified for financial reporting purposes the portion due 2043 of the debentures that could be redeemed for cash as a current liability. Exchangeable Senior Debentures classified as current totaled $978 million at December 31, 2017. Although such amount has been classified as a current liability for financial reporting purposes, the Company believes the probability that the holders of such instruments will exchange a significant principal amount of the debentures prior to maturity is unlikely.

Interest on the Company's exchangeable debentures is payable semi-annually based on the date of issuance. At maturity, all of the Company's exchangeable debentures are payable in cash.

Senior Debentures

Interest on the 8.5% Senior Debentures due 2029 and the 8.25% Senior Debentures due 2030 (the “Senior Debentures”) is payable semi-annually based on the date of issuance. The Senior Debentures are stated net of an aggregate unamortized discount of $4 million at December 31, 2017 and $5 million at December 31, 2016. Such discount is being amortized to interest expense in the accompanying consolidated statements of operations.

QVC Senior Secured Notes

On March 18, 2014, QVC issued $400 million principal amount of 3.125% Senior Secured Notes due 2019 at an issue price of 99.828% and $600 million principal amount of 4.85% Senior Secured Notes due 2024 at an issue price of 99.927% (collectively, the “March Notes”). The March Notes are secured by the capital stock of QVC and certain of QVC’s subsidiaries and have equal priority to QVC’s senior secured credit facility. The net proceeds from the March Notes offerings were used to repay indebtedness under QVC’s senior secured credit facility and for working capital and other general corporate purposes.

On August 21, 2014, QVC issued $600 million principal amount of 4.45% Senior Secured Notes due 2025 at an issue price of 99.860% and $400 million principal amount 5.45% Senior Secured Notes due 2034 at an issue price of 99.784% (collectively, the “August Notes”). The August Notes are secured by the capital stock of QVC and certain of QVC’s subsidiaries and have equal priority to QVC’s senior secured credit facility.

During prior years, QVC issued $500 million principal amount of 7.375% Senior Secured Notes due 2020 at par, $500 million principal amount of 5.125% Senior Secured Notes due 2022 at par, $750 million principal amount of 4.375% Senior Secured Notes due 2023 at par and $300 million principal amount of 5.95% Senior Secured Notes due 2043 at par.

On April 15, 2015, QVC completed the redemption of $500 million principal amount of its 7.375% Senior Secured Notes due 2020, whereby holders received consideration of $1,036.88 for each $1,000 of principal tendered. As a result of the redemption, a $21 million extinguishment loss is included in other, net in the accompanying consolidated statement of operations for the year ended December 31, 2015.

QVC Bank Credit Facilities

On March 9, 2015, QVC amended and restated its senior secured credit facility, which is a multi-currency facility that provided for a $2.25 billion revolving credit facility with a $250 million sub-limit for standby letters of credit and $1.5 billion of uncommitted incremental revolving loan commitments or incremental term loans.

On June 23, 2016, QVC amended and restated its senior secured credit facility (the "Third Amended and Restated Credit Agreement") with zulily as co-borrower (the "Borrowers"). The Third Amended and Restated Credit Agreement is a multi-currency facility that provides for a $2.65 billion revolving credit facility, with a $300 million total sub-limit for standby letters of credit and $1.5 billion of uncommitted incremental revolving loan commitments or incremental term loans. The Third Amended and Restated Credit Agreement includes a $400 million tranche that may be borrowed by QVC or zulily, with an additional $50 million sub-limit for standing letters of credit. The remaining $2.25 billion and any incremental loans may be borrowed only by QVC. The borrowers may elect that the loans extended under the senior secured credit facility bear interest at a rate per annum equal to the ABR or LIBOR, as each is defined in the senior secured credit facility agreement, plus a margin of 0.25% to 1.75% depending on various factors. Each loan may be prepaid in whole or in part without penalty other than customary breakage costs. No mandatory prepayments are required other than when borrowings and letter of credit usage exceed availability; provided that, if zulily ceases to be controlled by Liberty, all of its loans must be repaid and its letters of credit cash collateralized. Any amounts prepaid on the revolving facility may be reborrowed. The facility matures on June 23, 2021, except that $140 million of the $2.25 billion commitment available to QVC matures on March 9, 2020. Borrowings under the facility may be accelerated following certain customary events of default. The purpose of the amendment was to, among other things, extend the maturity of QVC's senior secured credit facility, provide zulily the opportunity to borrow on the senior secured credit facility and lower the interest rate on borrowings.

The payment and performance of the borrowers' obligations (including zulily's obligations) under the Third Amended and Restated Credit Agreement are guaranteed by each of QVC's Material Domestic Subsidiaries (as defined in the Third Amended and Restated Credit Agreement). Further, the borrowings under the Third Amended and Restated Credit Agreement are secured, *pari passu* with QVC's existing notes, by a pledge of all of QVC's equity interests. In addition, the payment and performance of the borrowers' obligations with respect to the $400 million tranche available to both QVC and zulily are also guaranteed by zulily and secured by a pledge of all of zulily's equity interests.

The Third Amended and Restated Credit Agreement contains certain affirmative and negative covenants, including certain restrictions on QVC and zulily and each of their restricted subsidiaries (subject to certain exceptions) with respect to, among other things: incurring additional indebtedness; creating liens on property or assets; making certain loans or investments; selling or disposing of assets; paying certain dividends and other restricted payments; dissolving, consolidating or merging; entering into certain transactions with affiliates; entering into sale or leaseback transactions; restricting subsidiary distributions; limiting QVC's consolidated leverage ratio, which is defined in QVC's senior secured credit facility as QVC's consolidated total debt to Adjusted OIBDA ratio for the most recent four fiscal quarter period; and limiting the borrowers' combined consolidated leverage ratio, which is defined in QVC's senior secured credit facility as QVC and zulily's combined debt to Adjusted OIBDA ratio for the most recent four fiscal quarter period. Liberty defines Adjusted OIBDA as revenue less cost of sales, operating expenses, and selling, general and administrative expenses (excluding stock-based compensation).

The interest rate on borrowings outstanding under the Third Amended and Restated Credit Agreement was 3.0% at December 31, 2017. Availability under the Third Amended and Restated Credit Agreement at December 31, 2017 was $877 million, net of $10 million of standby letters of credit.

QVC Interest Rate Swap Arrangement

During the year ended December 31, 2016, QVC entered into a three-year interest rate swap arrangement with a notional amount of $125 million to mitigate the interest rate risk associated with interest payments related to its variable rate debt. The swap arrangement does not qualify as a cash flow hedge under GAAP. Accordingly, changes in the fair value of the swap are reflected in Realized and unrealized gains or losses on financial instruments, net in the accompanying consolidated statements of operations.

HSNi Bank Credit Facility

On January 27, 2015, HSNi entered into a $1.25 billion five-year syndicated credit agreement ("Credit Agreement") which is secured by 100% of the voting equity securities of HSNi's U.S. subsidiaries and 65% of HSNi's first-tier foreign subsidiaries. Certain HSNi subsidiaries have unconditionally guaranteed HSNi's obligations under the Credit Agreement. The Credit Agreement, which included a $750 million revolving credit facility and a $500 million term loan, could be increased up to $1.75 billion subject to certain conditions and was set to expire on January 27, 2020. On December 29, 2017, the Credit Agreement was amended, the outstanding balance on the term loan was repaid, and the revolving credit facility was increased to $1 billion. The maturity of the revolving credit facility was extended to December 29, 2022. Loans under the amended Credit Agreement bear interest at a per annum rate equal to LIBOR plus a predetermined margin that ranges from 1.25% to 1.75% or the Base Rate (as defined in the Credit Agreement) plus a predetermined margin that ranges from 0.25% to 0.75%. HSNi pays a commitment fee ranging from 0.20% to 0.30% (based on the leverage ratio) on the unused portion of the revolving credit facility.

The Credit Agreement includes various covenants, limitations and events of default customary for similar facilities including a maximum leverage ratio of 3.50x (as defined in the Credit Agreement). The interest rate on the $460 million outstanding long-term debt balance as of December 31, 2017 was 3.07%. The amount available to HSNi under the revolving credit facility portion of the Credit Agreement is reduced by the amount of outstanding letters of credit issued under the revolving credit facility, which totaled $7 million as of December 31, 2017. The ability to draw funds under the revolving credit facility is dependent upon meeting the aforementioned financial covenants. As of December 31, 2017, the amount that could be borrowed under the revolving credit facility, after consideration of the financial covenants and the outstanding letters of credit, was approximately $533 million.

HSNi Interest Rate Swap Arrangement

HSNi has an outstanding interest rate swap that effectively converts $250 million of its variable rate bank credit facility to a fixed rate of 1.05% with a maturity date in January 2020 (the swapped fixed rate is exclusive of the credit spread under the Credit Agreement). Based on HSNi's leverage ratio as of December 31, 2017, the all-in fixed rate was 2.3525%. The interest rate swaps were previously designated and qualified as cash flow hedges; therefore, the effective portions of the changes in fair value were recorded in accumulated other comprehensive income (loss). Going forward the Company will account for the interest rate swaps at fair value with changes recorded through unrealized gain (loss).

Other Subsidiary Debt

Other subsidiary debt at December 31, 2017 is comprised of capitalized satellite transponder lease obligations.

Debt Covenants

Liberty, QVC and other subsidiaries were in compliance with all debt covenants at December 31, 2017.

Five Year Maturities

The annual principal maturities of Liberty's debt, based on stated maturity dates, for each of the next five years is as follows (amounts in millions):

2018	$ 24
2019	$ 425
2020	$ 23
2021	$ 1,786
2022	$ 980

Fair Value of Debt

Liberty estimates the fair value of its debt based on the quoted market prices for the same or similar issues or on the current rate offered to Liberty for debt of the same remaining maturities. The fair value, based on quoted prices of instruments not considered to be active markets (Level 2), of Liberty's publicly traded debt securities that are not reported at fair value in the accompanying consolidated balance sheets is as follows (amounts in millions):

	December 31, 2017	December 31, 2016
Senior debentures	$ 866	853
QVC senior secured notes	$ 3,636	3,496

Due to the variable rate nature, Liberty believes that the carrying amount of its subsidiary debt not discussed above approximated fair value at December 31, 2017.

(12) Income Taxes

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act makes broad and complex changes to the U.S. tax code, including, but not limited to, (1) reducing the U.S. federal corporate tax rate from 35 percent to 21 percent; (2) providing bonus depreciation that will allow for full expensing of qualified property; (3) creating a new limitation on deductible interest expense; (4) eliminating the corporate alternative minimum tax ("AMT") and changing how existing AMT credits can be realized; (5) changing rules related to uses and limitations of net operating loss carryforwards created in tax years beginning after December 31, 2017; (6) adding limitations on the deductibility of certain executive compensation; and (7) requiring a one-time transition tax on certain unrepatriated earnings of foreign subsidiaries that is payable over eight years. The SEC issued guidance on accounting for the tax effects of the Tax Act. The Company must reflect the income tax effects of those aspects of the Tax Act for which the accounting is known. To the extent that a company's accounting for certain income tax effects of the Tax Act is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements and the Tax Act provides a measurement period that should not extend beyond one year from the Tax Act enactment date. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply the tax laws that were in effect immediately before the enactment of the Tax Act.

The corporate rate reduction was applied to our inventory of deferred tax assets and deferred tax liabilities which resulted in the net tax benefit in the period ended December 31, 2017. The Company has determined a reasonable estimate for these amounts, and based on a continued analysis of the estimates and further guidance and interpretations on the application of the law, additional revisions may occur, and may be material, throughout the allowable measurement period.

Income tax benefit (expense) consists of:

	Years ended December 31,		
	2017	2016	2015
	amounts in millions		
Current:			
Federal	$ (61)	(40)	(188)
State and local	(23)	(12)	(26)
Foreign	(88)	(73)	(74)
	$ (172)	(125)	(288)
Deferred:			
Federal	$ 1,266	(444)	74
State and local	(130)	(33)	21
Foreign	—	4	8
	1,136	(473)	103
Income tax benefit (expense)	$ 964	(598)	(185)

The following table presents a summary of our domestic and foreign earnings from continuing operations before income taxes:

	Years ended December 31,		
	2017	2016	2015
	amounts in millions		
Domestic	$ 1,314	1,684	674
Foreign	209	168	142
Total	$ 1,523	1,852	816

Income tax benefit (expense) differs from the amounts computed by applying the U.S. federal income tax rate of 35% as a result of the following:

	Years ended December 31,		
	2017	2016	2015
	amounts in millions		
Computed expected tax benefit (expense)	$ (533)	(649)	(286)
State and local income taxes, net of federal income taxes	(26)	(26)	(15)
Foreign taxes, net of foreign tax credits	(32)	(9)	(5)
Dividends received deductions	10	9	51
Alternative energy tax credits and incentives	85	94	61
Change in valuation allowance affecting tax expense	(101)	(16)	6
Change in tax rate due to Tax Act	1,485	—	—
Change in state tax rate	(84)	1	(7)
Consolidation of equity investment	138	—	—
Other, net	22	(2)	10
Income tax benefit (expense)	$ 964	(598)	(185)

For the year ended December 31, 2017 the significant reconciling items are net tax benefits for the effect of the change in the U.S. federal corporate tax rate from 35% to 21% on deferred taxes, the tax-free consolidation of our equity method investment in HSNi, and tax benefits derived from Liberty's alternative energy tax credits and incentives, partially offset by net tax expense for an increase in the Company's valuation allowance and an increase in the Company's state effective tax rate used to measure deferred taxes.

The Company has also evaluated the impact of the one-time mandatory repatriation provision of the Tax Act. Under that provision, earnings and profits of certain of the Company's foreign subsidiaries not previously subjected to US tax could be subjected to US tax in 2017 at reduced rates. The Tax Act allows that earnings and profits deficits of certain subsidiaries may be used to offset the surpluses in others in computing the amount subject to the tax under the mandatory repatriation provision. The Company has performed an evaluation of its earnings and profits of its foreign subsidiaries and estimates that deficits in some of the subsidiaries offset the surpluses in others so that no amount is subject to the mandatory repatriation provision of the Tax Act.

Income tax expense was lower than the U.S. statutory tax rate of 35% in 2016 due to tax benefits derived from Liberty's alternative energy tax credits and incentives. Income tax expense was lower than the U.S. statutory tax rate of 35% in 2015 due to the receipt of taxable dividends that are subject to a dividends received deduction.

The tax effects of temporary differences that give rise to significant portions of the deferred income tax assets and deferred income tax liabilities are presented below:

	December 31,	
	2017	2016
	amounts in millions	
Deferred tax assets:		
Net operating and capital loss carryforwards	$ 160	123
Foreign tax credit carryforwards	98	134
Accrued stock compensation	51	56
Other accrued liabilities	19	118
Other future deductible amounts	190	144
Deferred tax assets	518	575
Valuation allowance	(165)	(64)
Net deferred tax assets	353	511
Deferred tax liabilities:		
Investments	903	1,057
Intangible assets	1,188	1,540
Discount on exchangeable debentures	981	1,404
Deferred gain on debt retirements	43	129
Other	41	17
Deferred tax liabilities	3,156	4,147
Net deferred tax liabilities	$ 2,803	3,636

The Company's valuation allowance increased $101 million in 2017. The entire change in valuation allowance affected tax expense and is primarily the result of new provisions in the Tax Act that changed the Company's judgment with respect to the future utilization of its foreign tax credit carryforward.

At December 31, 2017, the Company had net operating losses (on a tax effected basis), federal business tax credits and foreign tax credit carryforwards for income tax purposes aggregating approximately $160 million, $31 million and $98 million, respectively, which will begin to expire in 2017 and beyond if not utilized to reduce domestic, state or foreign income tax liabilities in future periods. The net operating losses are expected to be utilized prior to expiration, except for $67 million. The federal business tax credits are expected to be utilized prior to expiration. As a result of the international provisions in the Tax Act, the Company estimates that $98 million of its foreign tax credit carryforward will expire without utilization.

A reconciliation of unrecognized tax benefits is as follows:

	Years ended December 31,		
	2017	2016	2015
	amounts in millions		
Balance at beginning of year	$ 72	104	136
Additions based on tax positions related to the current year	10	16	14
Additions for tax positions of prior years	4	—	—
Reductions for tax positions of prior years	—	(26)	(12)
Lapse of statute and settlements	(15)	(22)	(34)
Balance at end of year	$ 71	72	104

As of December 31, 2017, 2016 and 2015, the Company had recorded tax reserves of $71 million, $72 million and $104 million, respectively, related to unrecognized tax benefits for uncertain tax positions. If such tax benefits were to be recognized for financial statement purposes, $60 million, $50 million and $47 million for the years ended December 31, 2017, 2016 and 2015, respectively, would be reflected in the Company's tax expense and affect its effective tax rate. Liberty's estimate of its unrecognized tax benefits related to uncertain tax positions requires a high degree of judgment. The Company has tax positions for which the amount of related unrecognized tax benefits could change during 2018. The amount of unrecognized tax benefits related to these issues could change as a result of potential settlements, lapsing of statute of limitations and revisions of estimates. It is reasonably possible that the amount of the Company's gross unrecognized tax benefits may decrease within the next twelve months by up to $3 million.

As of December 31, 2017, the Company's tax years prior to 2014 are closed for federal income tax purposes, and the IRS has completed its examination of the Company's 2014 tax year. The Company's 2015, 2016 and 2017 tax years are being examined currently as part of the IRS's Compliance Assurance Process ("CAP") program. Various states are currently examining the Company's prior years state income tax returns. Certain QVC subsidiaries are currently under audit in Germany for 2012 through 2014.

The Company recorded $17 million of accrued interest and penalties related to uncertain tax positions as of each of December 31, 2017, 2016 and 2015.

(13) Stockholders' Equity

Preferred Stock

Liberty's preferred stock is issuable, from time to time, with such designations, preferences and relative participating, optional or other rights, qualifications, limitations or restrictions thereof, as shall be stated and expressed in a resolution or resolutions providing for the issue of such preferred stock adopted by Liberty's Board of Directors. As of December 31, 2017, no shares of preferred stock were issued.

Common Stock

Series A QVC Group and Liberty Ventures common stock has one vote per share, and Series B QVC Group and Liberty Ventures common stock has ten votes per share. Each share of the Series B common stock is exchangeable at the option of the holder for one share of Series A common stock of the same group. The Series A and Series B common stock participate on an equal basis with respect to dividends and distributions.

At the Annual Meeting of Stockholders held on June 2, 2015, the Company's stockholders approved an amendment to the Restated Certificate of Incorporation that increased (i) the total number of shares of the Company's capital stock which the Company will have the authority to issue to 9,015 million shares, (ii) the number of shares of the Company's capital stock designated as "Common Stock" to 8,965 million shares and (iii) the number of shares of Common Stock designated as "Series A Liberty Ventures Common Stock," "Series B Liberty Ventures Common Stock" and "Series C Liberty Ventures Common Stock" to 400 million shares, 15 million shares and 400 million shares, respectively.

As of December 31, 2017, Liberty reserved for issuance upon exercise of outstanding stock options approximately 32.4 million shares of Series A QVC Group common stock and approximately 1.6 million shares of Series B QVC Group common stock. As of December 31, 2017, Liberty reserved for issuance upon exercise of outstanding stock options approximately 1.7 million shares of Series A Liberty Ventures common stock and approximately 1.1 million shares of Series B Liberty Ventures common stock.

In addition to the Series A and Series B QVC Group and Ventures common stock, there are 4 billion and 400 million shares of Series C QVC Group and Ventures common stock authorized for issuance, respectively. As of December 31, 2017, no shares of any Series C QVC Group and Ventures common stock were issued or outstanding.

On October 1, 2015, in conjunction with the acquisition of zulily, Liberty issued 38.5 million shares of Series A QVC Group common stock. On December 29, 2017, in conjunction with the acquisition of HSNi, Liberty issued 53.6 million shares of Series A QVC Group common stock. See additional discussion about both acquisitions in note 5.

Additionally, as discussed in note 1, on November 4, 2016, Liberty completed the Expedia Holdings Split-Off. The Expedia Holdings Split-Off was accomplished by the redemption of (i) 0.4 of each outstanding share of Liberty's Series A Liberty Ventures common stock for 0.4 of a share of Expedia Holdings Series A common stock and (ii) 0.4 of each outstanding share of Liberty's Series B Liberty Ventures common stock for 0.4 of a share of Expedia Holdings Series B common stock, in each case, with cash paid in lieu of any fractional shares of Liberty Ventures common stock or Expedia Holdings common stock (after taking into account all of the shares owned of record by each holder thereof, as applicable).

Purchases of Common Stock

During the year ended December 31, 2015, the Company repurchased 28,134,498 shares of Series A QVC Group common stock for aggregate cash consideration of $785 million.

During the year ended December 31, 2016, the Company repurchased 34,836,196 shares of Series A QVC Group common stock for aggregate cash consideration of $799 million.

During the year ended December 31, 2017, the Company repurchased 34,765,751 shares of Series A QVC Group common stock for aggregate cash consideration of $766 million.

All of the foregoing shares were repurchased pursuant to a previously announced share repurchase program and have been retired and returned to the status of authorized and available for issuance.

In connection with the Expedia Holdings Split-Off, holders of Liberty Ventures common stock were paid cash in lieu of fractional shares of Series A and Series B Liberty Ventures common stock. In order to fund the cash payments made to holders of shares of Series B Liberty Ventures common stock, the fractional shares that would have otherwise been issued to those holders were aggregated into an immaterial number of shares of Series B Liberty Ventures common stock by the Company's transfer agent and were repurchased by Liberty.

(14) Related Party Transactions with Officers and Directors

Chief Executive Officer Compensation Arrangement

In December 2014, the Compensation Committee of Liberty approved a compensation arrangement, including term options discussed in note 15, for its President and Chief Executive Officer (the "CEO"). The arrangement provides for a five year employment term beginning January 1, 2015 and ending December 31, 2019, with an annual base salary of $960,750, increasing annually by 5% of the prior year's base salary, and an annual target cash bonus equal to 250% of the applicable year's annual base salary. The arrangement also provides that, in the event the CEO is terminated for "cause," he will be entitled only to his accrued base salary and any amounts due under applicable law and he will forfeit all rights to his unvested term options. If, however, the CEO is terminated by Liberty without cause or if he terminates his employment for "good reason," the arrangement provides for him to receive his accrued base salary, his accrued but unpaid bonus and any amounts due under applicable law, a severance payment of 1.5 times his base salary during the year of his termination, a payment equal to $11.75 million pro rated based upon the elapsed number of days in the calendar year of termination, a payment equal to $17.5 million, and for his unvested term options to generally vest pro rata based on the portion of the term elapsed through the termination date plus 18 months and for all vested and accelerated options to remain exercisable until their respective expiration dates. If the CEO terminates his employment without "good reason," he will be entitled to his accrued base salary, his accrued but unpaid bonus and any amounts due under applicable law and a payment of the $11.75 million and for his unvested term options to generally vest pro rata based on the portion of the term elapsed through the termination date and all vested and accelerated options to remain exercisable until their respective expiration dates. Lastly, in the case of the CEO's death or his disability, the arrangement provides that he will be entitled only to his accrued base salary and any amounts due under applicable law, a payment of 1.5 times his base salary during that year, a payment equal to $11.75 million pro rated based upon the elapsed number of days in the calendar year of termination, a payment equal to $17.5 million and for his unvested term options to fully vest and for his vested and accelerated term options to remain exercisable until their respective expiration dates.

Pursuant to the CEO's compensation arrangement, he will receive aggregate target equity awards to be allocated between Liberty and Liberty Media in the amounts of $16 million with respect to calendar year 2015, $17 million with respect to calendar year 2016, $18 million with respect to calendar year 2017, $19 million with respect to calendar year 2018 and $20 million with respect to calendar year 2019. Such target equity awards are comprised of options to purchase shares of QVCB and LVNTB, along with performance-based restricted stock units ("Performance RSUs"). Vesting of the Performance RSUs is determined based on satisfaction of performance metrics that are set by Liberty and Liberty Media's respective compensation committees in the first quarter of each applicable year, except that the CEO will forfeit his unvested Performance RSUs if his employment is terminated for any reason before the end of the applicable year. In addition, Liberty and Liberty Media's compensation committees may grant additional equity awards, with a value of up to 50% of the target amount allocated to Liberty for the relevant year (the "Above Target Awards"), and the compensation committees may determine to establish additional performance metrics with respect to such Above Target Awards.

(15) Stock-Based Compensation

Liberty - Incentive Plans

Pursuant to the Liberty Interactive 2016 Omnibus Incentive Plan (the "2016 Plan"), the Company may grant stock options ("Awards") to be made in respect of a maximum of 39.9 million shares of Series A and Series B QVC Group common stock and Liberty Ventures common stock. Awards generally vest over 4-5 years and have a term of 7-10 years. Liberty issues new shares upon exercise of equity awards.

In connection with the HSNi acquisition in December 2017 (see note 5), outstanding awards to purchase shares of HSNi common stock (an "HSN Award") were exchanged for awards to purchase shares of Series A QVC Group common stock (a "QVCA Award"). The exercise prices and number of shares subject to the QVCA Award were determined based on (1) the exercise prices and number of shares subject to the HSN Award and (2) the acquisition exchange ratio. The exchange of such awards was considered a modification under ASC 805 – *Business Combinations*. A portion of the fair value of the replacement QVCA Awards was attributed to the consideration paid in the acquisition. The remaining portion of the fair value will be recognized in the consolidated financial statements over the remaining vesting period of each individual award.

In connection with the Expedia Holdings Split-Off in November 2016, the holder of an outstanding award to purchase shares of Liberty Ventures Series A and Series B common stock (a "Liberty Ventures Award") received an Award to purchase shares of the corresponding series of Expedia Holdings common stock and an adjustment to the exercise price and number of shares subject to the Liberty Ventures Award (as so adjusted, an "Adjusted Liberty Ventures Award"). Following the Expedia Holdings Split-Off, employees of Liberty hold Awards in both Liberty Ventures common stock and Expedia Holdings common stock. The compensation expense relating to employees of Liberty is recorded at Liberty.

In connection with the CommerceHub Spin-Off in July 2016, the holder of an outstanding award to purchase shares of Liberty Ventures Series A and Series B common stock (an "Original Liberty Ventures Award") received an adjustment to the exercise price and number of shares subject to the Original Liberty Ventures Award (as so adjusted, an "Adjusted Liberty Ventures Award"). A holder of an Original Liberty Ventures Award who was a member of the board of directors or an officer of Liberty holding the position of Vice President or above also received an Award to purchase shares of the corresponding series of CommerceHub common stock as well as Series C CommerceHub common stock (in each case, a "CommerceHub Award"). Following the CommerceHub Spin-Off, employees of Liberty may hold Awards in both Liberty Ventures common stock and CommerceHub common stock. The compensation expense relating to employees of Liberty is recorded at Liberty.

Liberty – Grants

The following table presents the number and weighted average grant-date fair value ("GDFV") of options granted by Liberty during the years ended December 31, 2017, 2016 and 2015:

	For the Years ended December 31,					
	2017		2016		2015	
	Options Granted (000's)	Weighted Average GDFV	Options Granted (000's)	Weighted Average GDFV	Options Granted (000's)	Weighted Average GDFV
Series A QVC Group common stock, QVC employees (1)	3,115	$ 7.86	2,860	$ 7.84	2,002	$ 11.87
Series A QVC Group common stock, zulily employees (1)	483	$ 7.86	433	$ 7.57	264	$ 9.84
Series A QVC Group common stock, Liberty employees and directors (2)	518	$ 7.81	421	$ 8.02	2,459	$ 11.63
Series A QVC Group common stock, QVC CEO (3)	NA	NA	NA	NA	1,680	$ 10.40
Series B QVC Group common stock, Liberty CEO (4)	154	$ 7.92	730	$ 7.47	132	$ 10.10
Series A Ventures Group common stock, Liberty employees and directors (2)	188	$ 16.52	114	$ 12.25	683	$ 18.10
Series B Ventures Group common stock, Liberty CEO (4)	269	$ 15.41	209	$ 12.48	135	$ 16.94

(1) Mainly vests semi-annually over four years.

(2) Mainly vests between three and five years for employees and in one year for directors.

(3) Vests 50% on each of December 31, 2019 and 2020. Grant was made in connection with a new compensation arrangement.

(4) Grants in 2017 and 2016 cliff vested at the end of their respective grant year; grant in 2015 cliff vested in March 2016. Grants were made in connection with his employment agreement (see note 14).

In connection with the Option Exchange (see below), Liberty granted 5.9 million, 946 thousand and 1.1 million options to purchase shares of Series A QVC Group common stock, Series A Liberty Ventures common stock and Series B Liberty Ventures common stock, respectively. Such options had an incremental weighted average GDFV of $3.49, $8.53 and $6.94, respectively.

In addition to the stock option grants to the Liberty CEO, Liberty granted performance-based restricted stock units ("RSUs") of Series B QVC Group common stock in 2017, 2016 and 2015 of 115 thousand, 53 thousand and 182 thousand, respectively. The RSUs had a fair value of $19.90, $25.11 and $29.41 per share, respectively, at the time they were granted. Liberty also granted performance-based RSUs of Series B Liberty Ventures common stock in 2016 and 2015 of 16 thousand and 13 thousand, respectively. The RSUs had a fair value of $38.79 and $42.33 per share, respectively, at the time they were granted. The 2017, 2016 and 2015 performance-based RSUs cliff vested in one year, subject to the satisfaction of certain performance objectives and based on an amount determined by the compensation committee.

During the fourth quarter of 2017, the Company entered into a series of transactions with certain officers of Liberty, associated with certain outstanding stock options, in order to recognize tax deductions in the current year versus future years (the "Option Exchange"). On December 26, 2017 (the "Grant Date"), pursuant to the approval of the Compensation Committee of its Board of Directors, the Company effected the acceleration of (i) each unvested in-the-money option to acquire shares of LVNTA and (ii) each unvested in-the-money option to acquire shares of LVNTB, in each case, held by certain of its officers (collectively, the "Eligible Optionholders"). Following this acceleration, also on the Grant Date, each Eligible Optionholder exercised, on a net settled basis, all of his outstanding in-the-money vested and unvested options to acquire QVCA shares, LVNTA shares and LVNTB shares (the "Eligible Options"), and:

- with respect to each vested Eligible Option, the Company granted the Eligible Optionholder a vested new option with substantially the same terms and conditions as the exercised vested Eligible Option, except that the exercise price for the new option is, in the case of options to acquire shares of QVCA or LVNTA, the closing price on the Grant Date per QVCA or LVNTA share, as applicable, and, in the case of options to acquire shares of LVNTB, the fair market value on the Grant Date of the LVNTB shares as determined pursuant to the incentive plan under which the awards were granted; and
- with respect to each unvested Eligible Option:
  - in satisfaction of the exercise, on a net settled basis, of the unvested Eligible Options, the Company granted the Eligible Optionholder a number of restricted LVNTA or LVNTB shares (the "Restricted Shares") with a vesting schedule identical to that of the unvested Eligible Options so exercised, and the Eligible Optionholder made an election under Section 83(b) of the Internal Revenue Code with respect to such Restricted Shares; and
  - the Company granted the Eligible Optionholder a new option (the "Unvested New Option") to acquire the same series of common stock and with substantially the same terms and conditions, including with respect to vesting and expiration, as the unvested Eligible Option exercised as set forth above, except that the number of LVNTA or LVNTB shares subject to such Unvested New Option is equal to the number of shares subject to the unvested Eligible Option minus the number of Restricted Shares received upon exercise of such unvested Eligible Option. The exercise price of such new option is, in the case of a LVNTA option, the closing price on the Grant Date per share of LVNTA, or, in the case of a LVNTB option, the fair market value on the Grant Date of the LVNTB shares as determined pursuant to the incentive plan under which the Unvested New Options were granted.

The Option Exchange was considered a modification under ASC 718 – Stock Compensation, with the following impacts on compensation expense. The unamortized value of the unvested Eligible Options that were exercised, which was $14 million for LVNTA and LVNTB combined, will be expensed over the vesting period of the Restricted Shares attributable to the exercise of those options. The grant of new vested options resulted in incremental compensation expense in the fourth quarter of 2017 of $30 million for QVCA, LVNTA and LVNTB combined. The grant of Unvested New Options resulted in incremental compensation expense totaling $6 million for LVNTA and LVNTB combined, which will be amortized over the vesting periods of those options.

The Company has calculated the GDFV for all of its equity classified awards using the Black-Scholes-Merton Model. The Company estimates the expected term of the Awards based on historical exercise and forfeiture data. For grants made in 2017, 2016 and 2015, the range of expected terms was 2.0 to 6.7 years. The volatility used in the calculation for Awards is based on the historical volatility of Liberty's stocks and the implied volatility of publicly traded Liberty options. The Company uses a zero dividend rate and the risk-free rate for Treasury Bonds with a term similar to that of the subject options.

The following table presents the range of volatilities used by Liberty in the Black-Scholes-Merton Model for the 2017, 2016 and 2015 QVC Group and Liberty Ventures grants.

	Volatility		
2017 grants			
QVC Group options	26.9 %	-	32.7 %
Liberty Ventures options	25.9 %	-	28.9 %
2016 grants			
QVC Group options	27.4 %	-	27.4 %
Liberty Ventures options	30.6 %	-	30.6 %
2015 grants			
QVC Group options	27.4 %	-	39.7 %
Liberty Ventures options	30.6 %	-	42.4 %

Liberty - Outstanding Awards

The following table presents the number and weighted average exercise price ("WAEP") of the Awards to purchase QVC Group and Liberty Ventures common stock granted to certain officers, employees and directors of the Company, as well as the weighted average remaining life and aggregate intrinsic value of the Awards.

	QVC Group							
	Series A				Series B			
	Awards (000's)	WAEP	Weighted average remaining life	Aggregate intrinsic value (in millions)	Awards (000's)	WAEP	Weighted average remaining life	Aggregate intrinsic value (in millions)
Outstanding at January 1, 2017	29,585	$ 20.80			1,489	$ 27.50		
HSNi Acquisition	3,635	$ 26.22			—	$ —		
Granted	4,116	$ 23.82			154	$ 23.87		
Exercised	(3,611)	$ 16.34			—	$ —		
Forfeited/Cancelled	(1,364)	$ 27.23			—	$ —		
Option Exchange, Exercised	(5,931)	$ 17.76			—	$ —		
Option Exchange, Granted	5,931	$ 25.74			—	$ —		
Outstanding at December 31, 2017	32,361	$ 23.48	4.0 years	$ 86	1,643	$ 27.16	4.8 years	$ —
Exercisable at December 31, 2017	20,286	$ 22.66	3.2 years	$ 71	997	$ 25.40	4.3 years	$ —

	Liberty Ventures							
	Series A				Series B			
	Awards (000's)	WAEP	Weighted average remaining life	Aggregate intrinsic value (in millions)	Awards (000's)	WAEP	Weighted average remaining life	Aggregate intrinsic value (in millions)
Outstanding at January 1, 2017	1,974	$ 22.18			987	$ 35.02		
Granted	188	$ 55.42			269	$ 52.39		
Exercised	(451)	$ 16.69			—	$ —		
Forfeited/Cancelled	(12)	$ 38.50			—	$ —		
Option Exchange, Exercised	(975)	$ 20.99			(1,256)	$ 38.74		
Option Exchange, Granted	946	$ 55.96			1,080	$ 56.38		
Outstanding at December 31, 2017	1,670	$ 47.12	2.6 years	$ 14	1,080	$ 56.38	4.7 years	$ —
Exercisable at December 31, 2017	1,273	$ 47.45	2.0 years	$ 10	443	$ 56.38	2.0 years	$ —

As of December 31, 2017, the total unrecognized compensation cost related to unvested Liberty Awards was approximately $116 million. Such amount will be recognized in the Company's consolidated statements of operations over a weighted average period of approximately 1.8 years.

Liberty - Exercises

The aggregate intrinsic value of all options exercised during the years ended December 31, 2017, 2016 and 2015 was $145 million, $44 million and $115 million, respectively. The aggregate intrinsic value of options exercised for the year ended December 31, 2017 includes approximately $104 million related to the intrinsic value of options exercised as a result of the Option Exchange.

Liberty - Restricted Stock

The Company had approximately 5.2 million and 252 thousand unvested restricted shares of QVC Group and Liberty Ventures common stock, respectively, held by certain directors, officers and employees of the Company as of December 31, 2017. These Series A and Series B unvested restricted shares of QVC Group and Liberty Ventures had a weighted average GDFV of $24.00 and $50.46 per share, respectively.

The aggregate fair value of all restricted shares of Liberty common stock that vested during the years ended December 31, 2017, 2016 and 2015 was $23 million, $26 million and $16 million, respectively.

Other

Certain of the Company's other subsidiaries have stock-based compensation plans under which employees and non-employees are granted options or similar stock-based awards. Awards made under these plans vest and become exercisable over various terms and are typically cash settled and recorded as liability awards. During the year ended December 31, 2016, approximately $90 million of cash payments were made to settle CommerceHub stock based awards. The awards and compensation recorded, if any, under the plans at the other subsidiaries are not significant to Liberty.

(16) Employee Benefit Plans

Subsidiaries of Liberty sponsor 401(k) plans, which provide their employees an opportunity to make contributions to a trust for investment in Liberty common stock, as well as other mutual funds. The Company's subsidiaries make matching contributions to their plans based on a percentage of the amount contributed by employees. Employer cash contributions to all plans aggregated $20 million, $25 million and $27 million, respectively, for the years ended December 31, 2017, 2016 and 2015, respectively.

(17) Other Comprehensive Earnings (Loss)

Accumulated other comprehensive earnings (loss) included in Liberty's consolidated balance sheets and consolidated statements of equity reflect the aggregate of foreign currency translation adjustments, unrealized holding gains and losses on AFS securities and Liberty's share of accumulated other comprehensive earnings of affiliates.

The change in the components of accumulated other comprehensive earnings (loss), net of taxes ("AOCI"), is summarized as follows:

	Foreign currency translation adjustments	Share of AOCI of equity affiliates	AOCI
	amounts in millions		
Balance at January 1, 2015	$ (75)	(19)	(94)
Other comprehensive earnings (loss) attributable to Liberty Interactive Corporation stockholders	(100)	(21)	(121)
Balance at December 31, 2015	(175)	(40)	(215)
Other comprehensive earnings (loss) attributable to Liberty Interactive Corporation stockholders	(85)	(1)	(86)
Distribution of Liberty Expedia Holdings	—	35	35
Balance at December 31, 2016	$ (260)	(6)	(266)
Other comprehensive earnings (loss) attributable to Liberty Interactive Corporation stockholders	130	3	133
Balance at December 31, 2017	$ (130)	(3)	(133)

The components of other comprehensive earnings (loss) are reflected in Liberty's consolidated statements of comprehensive earnings (loss) net of taxes. The following table summarizes the tax effects related to each component of other comprehensive earnings (loss).

	Before-tax amount	Tax (expense) benefit	Net-of-tax amount
	amounts in millions		
Year ended December 31, 2017:			
Foreign currency translation adjustments	$ 155	(21)	134
Share of other comprehensive earnings (loss) of equity affiliates	5	(2)	3
Other comprehensive earnings (loss)	$ 160	(23)	137
Year ended December 31, 2016:			
Foreign currency translation adjustments	$ (97)	13	(84)
Share of other comprehensive earnings (loss) of equity affiliates	(8)	3	(5)
Other comprehensive earnings (loss) from discontinued operations	(3)	1	(2)
Other	10	(4)	6
Other comprehensive earnings (loss)	$ (98)	13	(85)
Year ended December 31, 2015:			
Foreign currency translation adjustments	$ (118)	17	(101)
Share of other comprehensive earnings (loss) of equity affiliates	(6)	2	(4)
Other comprehensive earnings (loss) from discontinued operations	(27)	10	(17)
Other comprehensive earnings (loss)	$ (151)	29	(122)

(18) Commitments and Contingencies

Operating Leases

Liberty leases business offices, has entered into satellite transponder lease agreements and uses certain equipment under lease arrangements. Rental expense under such arrangements amounted to $45 million, $46 million and $39 million for the years ended December 31, 2017, 2016 and 2015, respectively.

A summary of future minimum lease payments under noncancelable operating leases and build to suit leases as of December 31, 2017 follows (amounts in millions):

Years ending December 31:	
2018	$ 78
2019	$ 70
2020	$ 58
2021	$ 51
2022	$ 42
Thereafter	$ 201

It is expected that in the normal course of business, leases that expire generally will be renewed or replaced by leases on other properties; thus, it is anticipated that future lease commitments will not be less than the amount shown for 2017.

Distribution Center Lease

On July 2, 2015, QVC entered into a lease (the "Lease") for a west coast distribution center. Pursuant to the Lease, the landlord built an approximately one million square foot rental building in Ontario, California (the "Premises"), and thereafter leased the Premises to QVC as its new California distribution center for an initial term of 15 years. Under the Lease, QVC is required to pay an initial base rent of approximately $6 million per year, increasing to approximately $8 million per year by the final year of the initial term, as well as all real estate taxes and other building operating costs. QVC also has an option to extend the term of the Lease for up to two consecutive terms of 10 years each.

QVC has the right to purchase the Premises and related land from the landlord by entering into an amended and restated agreement at any time during the twenty-fifth or twenty-sixth months of the Lease's initial term with a $10 million initial payment and annual payments of $12 million over a term of 13 years.

QVC concluded that it was the deemed owner (for accounting purposes only) of the Premises during the construction period under build to suit lease accounting. Building construction began in July of 2015. During the construction period, QVC recorded estimated project construction costs incurred by the landlord as a projects in progress asset and a corresponding long-term liability in "Property and equipment, net" and "Other long-term liabilities," respectively. In addition, QVC paid for normal tenant improvements and certain structural improvements and recorded these amounts as part of the projects in progress asset. Upon completion of construction, the long-term liability was reclassified to debt. QVC incurred construction costs of $89 million during the year ended December 31, 2016. No such costs were incurred for the year ended December 31, 2017.

On August 29, 2016, QVC's California distribution center officially opened. QVC concluded that the Lease does not meet the criteria for "sale-leaseback" treatment under U.S. GAAP. Therefore, QVC treats the Lease as a financing obligation and lease payments are attributed to: (1) a reduction of the principal financing obligation; (2) imputed interest expense; and (3) land lease expense representing an imputed cost to lease the underlying land of the Premises. In addition, the building asset will be depreciated over its estimated useful life of 20 years. Although QVC did not begin making monthly lease payments pursuant to the Lease until February 2017, the portion of the lease obligations allocated to the land has been treated for accounting purposes as an operating lease that commenced in 2015. If QVC does not exercise its right to purchase the Premises and related land, QVC will derecognize both the net book values of the asset and the financing obligation.

Litigation

Liberty has contingent liabilities related to legal and tax proceedings and other matters arising in the ordinary course of business. Although it is reasonably possible Liberty may incur losses upon conclusion of such matters, an estimate of any loss or range of loss cannot be made. In the opinion of management, it is expected that amounts, if any, which may be required to satisfy such contingencies will not be material in relation to the accompanying consolidated financial statements.

(19) Information About Liberty's Operating Segments

Liberty, through its ownership interests in subsidiaries and other companies, is primarily engaged in the video and on-line commerce industries. Liberty identifies its reportable segments as (A) those consolidated subsidiaries that represent 10% or more of its consolidated annual revenue, annual Adjusted OIBDA or total assets and (B) those equity method affiliates whose share of earnings represent 10% or more of Liberty's annual pre-tax earnings. The segment presentation for prior periods has been conformed to the current period segment presentation.

Liberty evaluates performance and makes decisions about allocating resources to its operating segments based on financial measures such as revenue, Adjusted OIBDA, gross margin, average sales price per unit, number of units shipped and revenue or sales per customer equivalent. In addition, Liberty reviews nonfinancial measures such as unique website visitors, conversion rates and active customers, as appropriate.

Liberty defines Adjusted OIBDA as revenue less cost of sales, operating expenses, and selling, general and administrative expenses (excluding stock-based compensation). Liberty believes this measure is an important indicator of the operational strength and performance of its businesses, including each business's ability to service debt and fund capital expenditures. In addition, this measure allows management to view operating results and perform analytical comparisons and benchmarking between businesses and identify strategies to improve performance. This measure of performance excludes depreciation and amortization, stock-based compensation, certain purchase accounting adjustments, separately reported litigation settlements and restructuring and impairment charges that are included in the measurement of operating income pursuant to GAAP. Accordingly, Adjusted OIBDA should be considered in addition to, but not as a substitute for, operating income, net income, cash flow provided by operating activities and other measures of financial performance prepared in accordance with GAAP. Liberty generally accounts for intersegment sales and transfers as if the sales or transfers were to third parties, that is, at current prices.

For the year ended December 31, 2017, Liberty has identified the following consolidated subsidiaries as its reportable segments:

- QVC – consolidated subsidiary that markets and sells a wide variety of consumer products in the U.S. and several foreign countries, primarily by means of its televised shopping programs and via the Internet and mobile transactions through its domestic and international websites.

- zulily – consolidated subsidiary that markets and sells unique products in the U.S. and several foreign countries through flash sales events, primarily through its desktop and mobile websites and mobile applications.
- HSN – consolidated subsidiary that markets and sells a wide variety of consumer products primarily in the U.S. by means of its televised shopping programs and via the Internet and mobile transactions through its domestic websites.

Liberty's operating segments are strategic business units that offer different products and services. They are managed separately because each segment requires different technologies, distribution channels and marketing strategies. The accounting policies of the segments that are also consolidated subsidiaries are the same as those described in the Company's summary of significant accounting policies.

Performance Measures

	Years ended December 31,					
	2017		2016		2015	
	Revenue	Adjusted OIBDA	Revenue	Adjusted OIBDA	Revenue	Adjusted OIBDA
	amounts in millions					
QVC Group						
QVC	$ 8,771	1,897	8,682	1,840	8,743	1,894
HSN	—	—	NA	NA	NA	NA
zulily	1,613	91	1,547	112	426	21
Corporate and other	—	(35)	—	(16)	—	(28)
Inter-segment eliminations	(3)	—	(10)	—	—	—
Total QVC Group	10,381	1,953	10,219	1,936	9,169	1,887
Ventures Group						
Corporate and other	23	(27)	428	3	820	59
Total Ventures Group	23	(27)	428	3	820	59
Consolidated Liberty	$ 10,404	1,926	10,647	1,939	9,989	1,946

Other Information

	December 31, 2017				December 31, 2016			
	Total assets	Investments in affiliates	Investment in Liberty Broadband	Capital expenditures	Total assets	Investments in affiliates	Investment in Liberty Broadband	Capital expenditures
	amounts in millions							
QVC Group								
QVC	$ 11,550	40	—	152	11,545	40	—	179
HSN	2,798	—	—	—	NA	NA	NA	NA
zulily	2,323	—	—	49	2,461	—	—	27
Corporate and other	566	—	—	—	351	184	—	—
Total QVC Group	17,237	40	—	201	14,357	224	—	206
Ventures Group								
Corporate and other	6,885	269	3,635	3	5,998	357	3,161	27
Total Ventures Group	6,885	269	3,635	3	5,998	357	3,161	27
Inter-group eliminations	—	—		—	—	—		—
Consolidated Liberty	$ 24,122	309	3,635	204	20,355	581	3,161	233

The following table provides a reconciliation of consolidated segment Adjusted OIBDA to operating income and earnings (loss) from continuing operations before income taxes:

	Years ended December 31,		
	2017	2016	2015
	amounts in millions		
Consolidated segment Adjusted OIBDA	$ 1,926	1,939	1,946
Stock-based compensation	(123)	(97)	(127)
Depreciation and amortization	(725)	(874)	(703)
Acquisition and restructuring related costs	(35)	—	—
Operating income	1,043	968	1,116
Interest expense	(355)	(363)	(360)
Share of earnings (loss) of affiliates, net	(200)	(68)	(178)
Realized and unrealized gains (losses) on financial instruments, net	618	1,175	114
Gains (losses) on transactions, net	410	9	110
Other, net	7	131	14
Earnings (loss) from continuing operations before income taxes	$ 1,523	1,852	816

Revenue by Geographic Area

Revenue by geographic area based on the location of customers is as follows:

	Years ended December 31,		
	2017	2016	2015
	amounts in millions		
United States	$ 7,684	7,979	7,412
Japan	934	900	811
Germany	899	866	850
Other foreign countries	887	902	916
	$ 10,404	10,647	9,989

Long-lived Assets by Geographic Area

	December 31,	
	2017	2016
	amounts in millions	
United States	$ 895	694
Japan	143	145
Germany	164	154
Other foreign countries	139	138
	$ 1,341	1,131

(20) Quarterly Financial Information (Unaudited)

As discussed in note 3, during the third quarter of 2016, the Company adopted new accounting guidance that requires the recognition of excess tax benefits and tax deficiencies as income tax benefit or expense rather than as additional paid-in capital. The Company has applied the new guidance prospectively from January 1, 2016. The unaudited quarterly information for the first and second quarters of 2016 has been retrospectively adjusted to reflect the impact of the adoption of this guidance.

In addition, as discussed in note 6, in November 2016, Liberty completed the Expedia Holdings Split-Off. The unaudited quarterly information below for 2016 reflects Liberty's interest in Expedia as a discontinued operation for all periods presented.

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	amounts in millions, except per share amounts			
2017:				
Revenue	$ 2,327	2,352	2,381	3,344
Operating income	$ 213	254	208	368
Earnings from continuing operations	$ 519	184	308	1,476
Net earnings (loss) attributable to Liberty Interactive Corporation stockholders:				
Series A and Series B QVC Group common stock	$ 91	111	119	887
Series A and Series B Liberty Ventures common stock	$ 416	64	177	576
Basic net earnings (loss) from continuing operations attributable to Liberty Interactive Corporation stockholders per common share:				
Series A and Series B QVC Group common stock	$ 0.20	0.25	0.27	2.07
Series A and Series B Liberty Ventures common stock	$ 4.89	0.75	2.06	6.70
Diluted net earnings (loss) from continuing operations attributable to Liberty Interactive Corporation stockholders per common share:				
Series A and Series B QVC Group common stock	$ 0.20	0.24	0.26	2.05
Series A and Series B Liberty Ventures common stock	$ 4.84	0.74	2.03	6.70
Basic net earnings (loss) attributable to Liberty Interactive Corporation stockholders per common share:				
Series A and Series B QVC Group common stock	$ 0.20	0.25	0.27	2.07
Series A and Series B Liberty Ventures common stock	$ 4.89	0.75	2.06	6.70
Diluted net earnings (loss) attributable to Liberty Interactive Corporation stockholders per common share:				
Series A and Series B QVC Group common stock	$ 0.20	0.24	0.26	2.05
Series A and Series B Liberty Ventures common stock	$ 4.84	0.74	2.03	6.70

		1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
		amounts in millions, except per share amounts			
2016:					
Revenue	$	2,510	2,563	2,412	3,162
Operating income	$	189	250	157	372
Earnings from continuing operations	$	92	387	451	324
Net earnings (loss) attributable to Liberty Interactive Corporation stockholders:					
Series A and Series B QVC Group common stock	$	94	130	61	188
Series A and Series B Liberty Ventures common stock	$	(26)	249	408	131
Basic net earnings (loss) from continuing operations attributable to Liberty Interactive Corporation stockholders per common share:					
Series A and Series B QVC Group common stock	$	0.19	0.27	0.13	0.41
Series A and Series B Liberty Ventures common stock	$	(0.07)	1.73	2.68	1.15
Diluted net earnings (loss) from continuing operations attributable to Liberty Interactive Corporation stockholders per common share:					
Series A and Series B QVC Group common stock	$	0.19	0.27	0.13	0.40
Series A and Series B Liberty Ventures common stock	$	(0.07)	1.72	2.64	1.15
Basic net earnings (loss) attributable to Liberty Interactive Corporation stockholders per common share:					
Series A and Series B QVC Group common stock	$	0.19	0.27	0.13	0.41
Series A and Series B Liberty Ventures common stock	$	(0.18)	1.75	2.87	1.21
Diluted net earnings (loss) attributable to Liberty Interactive Corporation stockholders per common share:					
Series A and Series B QVC Group common stock	$	0.19	0.27	0.13	0.40
Series A and Series B Liberty Ventures common stock	$	(0.18)	1.74	2.83	1.21

Unaudited Attributed Financial Information for Tracking Stock Groups

The information herein relates to Liberty Interactive Corporation and its controlled subsidiaries (collectively "Liberty," the "Company," "Consolidated Liberty," "us," "we," or "our" unless the context otherwise requires).

The following tables present our assets and liabilities as of December 31, 2017 and 2016 and revenue, expenses and cash flows for the three years ended December 31, 2017, 2016 and 2015. The tables further present our assets, liabilities, revenue, expenses and cash flows that are attributed to the QVC Group and the Ventures Group, respectively. The financial information in this Exhibit should be read in conjunction with our consolidated financial statements for the year ended December 31, 2017 included in this Annual Report.

Our QVC Group common stock is intended to reflect the separate performance of our QVC Group, which, subsequent to the reattribution described in the following paragraph, is comprised of our consolidated subsidiaries, QVC, Inc. ("QVC"), zulily (defined below) (as of October 1, 2015), and HSN, Inc. ("HSNi") (as of December 29, 2017). Our Liberty Ventures common stock is intended to reflect the separate performance of our Ventures Group which, consists of our online commerce businesses, Bodybuilding.com, LLC ("Bodybuilding") (through November 4, 2016), CommerceHub, Inc. (then, Commerce Technologies, Inc.) ("CommerceHub") (through July 22, 2016), Evite, Inc. ("Evite"), and Backcountry.com, Inc. ("Backcountry") (through June 30, 2015) (collectively, the "Digital Commerce" businesses). The Ventures Group also holds ownership interests in FTD Companies, Inc. ("FTD") and LendingTree, Inc. ("LendingTree"), which we account for as equity method investments; an interest in Liberty Broadband Corporation ("Liberty Broadband"), which we account for at fair value; and investments and related financial instruments in public companies such as Charter Communications, Inc. ("Charter"), ILG, Inc. ("ILG") and Time Warner Inc. ("Time Warner"), which are accounted for at their respective fair market values.

As discussed in note 2 to the accompanying consolidated financial statements, on October 3, 2014, the QVC Group (referred to as the "Interactive Group" prior to the reattribution) attributed to the Ventures Group its Digital Commerce businesses. In connection with the reattribution, each holder of Liberty Interactive common stock received 0.14217 of a share of the corresponding series of Liberty Ventures common stock for each share of Liberty Interactive common stock held as of the record date, with cash paid in lieu of fractional shares. The distribution date for the dividend was on October 20, 2014, and the Liberty Interactive common stock began trading ex-dividend on October 15, 2014. The Interactive Group is referred to as the QVC Group subsequent to the reattribution. The reattribution of the Digital Commerce businesses is presented on a prospective basis from the date of the reattribution in Liberty's consolidated financial statements, with October 1, 2014 used as a proxy for the date of the reattribution.

As discussed in note 6 of the accompanying consolidated financial statements, Liberty sold Backcountry on June 30, 2015. Backcountry is not presented as a discontinued operation as the sale did not represent a strategic shift that had a major effect on Liberty's operations and financial results.

As discussed in note 5 of the accompanying consolidated financial statements, on October 1, 2015, Liberty acquired all of the outstanding shares of zulily, inc. ("zulily") (now known as zulily, llc) for consideration of approximately $2.3 billion. zulily is an online retailer offering customers a fun and entertaining shopping experience with a fresh selection of new product styles launched each day.

As discussed in note 6 of the accompanying consolidated financial statements, Liberty completed the split-off (the "Expedia Holdings Split-Off") of Liberty Expedia Holdings, Inc. ("Expedia Holdings") on November 4, 2016. Expedia Holdings is comprised of, among other things, Liberty's former interest in Expedia, Inc. ("Expedia") and Liberty's former wholly-owned subsidiary Bodybuilding. The split-off of Liberty's interest in Expedia represented a strategic shift that had a major effect on Liberty's operations, primarily due to one-time gains on transactions recognized as part of the Expedia Holdings Split-Off by Expedia in 2015. Accordingly, Liberty's interest in Expedia is presented as a discontinued operation. The disposition of Bodybuilding did not have a major effect on Liberty's historical results nor is it expected to have a major effect on Liberty's future operations. The disposition of Bodybuilding did not represent a strategic shift in Liberty's operations. Accordingly, Bodybuilding is not presented as a discontinued operation.

As discussed in note 6 of the accompanying consolidated financial statements, Liberty completed the spin-off (the "CommerceHub Spin-Off") of its former wholly-owned subsidiary CommerceHub on July 22, 2016. CommerceHub is not presented as a discontinued operation as the CommerceHub Spin-Off did not represent a strategic shift that had a major effect on Liberty's operations and financial results.

As discussed in note 5 of the accompanying consolidated financial statements, on December 29, 2017, Liberty acquired the approximate remaining 62% of HSNi it did not already own in an all-stock transaction, making HSNi a wholly-owned subsidiary, attributed to the QVC Group tracking stock group. HSNi has two operating segments: its televised shopping business ("HSN"), and its catalog retail business ("Cornerstone"). HSNi is an interactive multi-channel retailer that markets and sells a wide range of third party and proprietary merchandise directly to consumers through various platforms including (i) television home shopping programming broadcast on the HSN television networks; (ii) catalogs, consisting primarily of the Cornerstone portfolio of leading print catalogs which includes Ballard Designs, Frontgate, Garnet Hill, Grandin Road and Improvements; (iii) websites, which consist primarily of HSN.com, the five branded websites operated by Cornerstone and joymangano.com; (iv) mobile applications; (v) retail and outlet stores; and (vi) wholesale distribution of certain proprietary products to other retailers.

As discussed in note 2 of the accompanying consolidated financial statements, on April 4, 2017, Liberty entered into an Agreement and Plan of Reorganization (as amended, the "GCI Reorganization Agreement" and the transactions contemplated thereby, the "Transactions") with General Communication, Inc. ("GCI"), an Alaska corporation, and Liberty Interactive LLC, a Delaware limited liability company and a direct wholly-owned subsidiary of Liberty ("LI LLC"), whereby Liberty will acquire GCI through a reorganization in which certain Ventures Group assets and liabilities will be contributed to GCI Liberty (as defined below) in exchange for a controlling interest in GCI Liberty. Liberty and LI LLC will contribute to GCI Liberty its entire equity interest in Liberty Broadband and Charter, along with, subject to certain exceptions, Liberty's entire equity interests in LendingTree, together with the Evite operating business and certain other assets and liabilities, in exchange for (i) the issuance to LI LLC of a number of shares of new GCI Liberty Class A Common Stock and a number of shares of new GCI Liberty Class B Common Stock equal to the number of outstanding shares of Series A Liberty Ventures common stock and Series B Liberty Ventures common stock outstanding on the closing date of the Contribution, respectively, (ii) cash and (iii) the assumption of certain liabilities by GCI Liberty (the "Contribution").

Liberty will then effect a tax-free separation of its controlling interest in the combined company (which has since been renamed GCI Liberty, Inc. ("GCI Liberty")) to the holders of Liberty Ventures common stock, distributing one share of the corresponding class of new GCI Liberty common stock for each share of Liberty Ventures common stock held, in full redemption of all outstanding shares of such stock, leaving QVC Group common stock as the only outstanding common stock of Liberty. On the business day prior to the Contribution, holders of reclassified GCI Class A Common Stock and reclassified GCI Class B Common Stock each will receive (i) 0.63 of a share of new GCI Liberty Class A Common Stock and (ii) 0.20 of a share of new GCI Liberty Series A Cumulative Redeemable Preferred Stock (the "GCI Liberty preferred stock") in exchange for each share of their reclassified GCI stock. The exchange ratios were determined based on total consideration of $32.50 per share for existing GCI common stock, comprised of $27.50 per share in new GCI Liberty Class A Common Stock and $5.00 per share in newly issued GCI Liberty preferred stock, and a Liberty Ventures reference price of $43.65 (with no additional premium paid for shares of reclassified GCI Class B Common Stock). The GCI Liberty Series A preferred stock will accrue dividends at an initial rate of 5% per annum (which would increase to 7% in connection with a future reincorporation of GCI Liberty in Delaware) and will be redeemable upon the 21st anniversary of the closing of the Transactions.

At the closing of the Transactions, Liberty will reattribute certain assets and liabilities from the Ventures Group to the QVC Group (the "Reattribution"). The reattributed assets and liabilities are expected to include cash, Liberty's interest in ILG, FTD, certain green energy investments, LI LLC's exchangeable debentures, and certain tax benefits. Pursuant to a recent amendment to the GCI Reorganization Agreement, LI LLC's 1.75% Exchangeable Debentures due 2046 (the "1.75% Exchangeable Debentures") will not be subject to a pre-closing exchange offer and will instead be reattributed to the QVC Group, along with (i) an amount of cash equal to the net present value of the adjusted principal amount of such 1.75% Exchangeable Debentures (determined as if paid on October 5, 2023) and stated interest payments on the 1.75% Exchangeable Debentures to October 5, 2023 and (ii) an indemnity obligation from GCI Liberty with respect to any payments made by LI LLC in excess of stated principal and interest to any holder that exercises its exchange right under the terms of the debentures through October 5, 2023. The cash reattributed to the QVC Group will be funded by available cash attributed to Liberty's Ventures Group and the proceeds of a margin loan facility attributed to the Ventures Group in an initial principal amount of $1 billion. Within six months of the closing, Liberty, LI LLC and GCI Liberty will cooperate with, and reasonably assist each other with respect to, the commencement and consummation of a purchase offer (the "Purchase Offer") whereby LI LLC will offer to purchase, either pursuant to privately negotiated transactions or a tender offer, the 1.75% Exchangeable Debentures on terms and conditions (including maximum offer price) reasonably acceptable to GCI Liberty. GCI Liberty will indemnify LI LLC for each 1.75% Exchangeable Debenture repurchased by LI LLC in the Purchase Offer in an amount equal to the difference between (x) the purchase price paid by LI LLC to acquire such 1.75% Exchangeable Debenture in the Purchase Offer and (y) the sum of the amount of cash reattributed with respect to such purchased 1.75% Exchangeable Debenture in the Reattribution plus the amount of certain tax benefits attributable to such 1.75% Exchangeable Debenture so purchased. GCI Liberty's indemnity obligation with respect to payments made upon a holder's exercise of its exchange right will be eliminated as to any 1.75% Exchangeable Debentures purchased in the Purchase Offer.

Liberty will complete the Reattribution using similar valuation methodologies to those used in connection with its previous reattributions, including taking into account the advice of its financial advisor. The Transactions are expected to be consummated on March 9, 2018, subject to the satisfaction of customary closing conditions. Simultaneous with that closing, QVC Group common stock will become the only outstanding common stock of Liberty, and thus QVC Group common stock will cease to function as a tracking stock and will effectively become regular common stock, and Liberty will be renamed Qurate Retail Group, Inc., with QVC, HSNi and zulily as wholly-owned subsidiaries.

Notwithstanding the following attribution of assets, liabilities, revenue, expenses and cash flows to the QVC Group and the Ventures Group, our tracking stock structure does not affect the ownership or the respective legal title to our assets or responsibility for our liabilities. We and our subsidiaries are each responsible for our respective liabilities. Holders of QVC Group common stock and Liberty Ventures common stock are holders of our common stock and are subject to risks associated with an investment in our company and all of our businesses, assets and liabilities. The issuance of QVC Group common stock and Liberty Ventures common stock does not affect the rights of our creditors or creditors of our subsidiaries.

SUMMARY ATTRIBUTED FINANCIAL DATA

QVC Group

		December 31, 2017	December 31, 2016
		amounts in millions	
Summary balance sheet data:			
Current assets	$	3,582	2,642
Investments in affiliates, accounted for using the equity method	$	40	224
Intangible assets not subject to amortization, net	$	10,982	9,325
Total assets	$	17,237	14,357
Long-term debt, including current portion	$	6,703	6,375
Deferred tax liabilities	$	994	1,116
Attributed net assets	$	6,819	4,860

	Years ended December 31,		
	2017	2016	2015
	amounts in millions		
Summary operations data:			
Revenue	$ 10,381	10,219	9,169
Cost of sales	(6,789)	(6,642)	(5,847)
Operating expenses	(648)	(653)	(620)
Selling, general and administrative expenses (1)	(1,088)	(1,063)	(875)
Acquisition and restructuring charges	(35)	—	—
Depreciation and amortization	(721)	(850)	(657)
Operating income (loss)	1,100	1,011	1,170
Interest expense	(293)	(289)	(283)
Share of earnings (losses) of affiliates, net	38	42	55
Realized and unrealized gains (losses) on financial instruments, net	—	2	42
Gains (losses) on transactions, net	409	—	—
Other income (expense), net	(3)	42	(6)
Income tax benefit (expense)	3	(297)	(304)
Net earnings (loss)	1,254	511	674
Less net earnings (loss) attributable to noncontrolling interests	46	38	34
Net earnings (loss) attributable to Liberty Interactive Corporation shareholders	$ 1,208	473	640

(1) Includes stock-based compensation of $97 million, $75 million and $60 million for the years ended December 31, 2017, 2016 and 2015, respectively.

SUMMARY ATTRIBUTED FINANCIAL DATA (Continued)

Ventures Group

		December 31, 2017	December 31, 2016
		amounts in millions	
Summary balance sheet data:			
Cash and cash equivalents	$	573	487
Investments in available-for-sale securities and other cost investments	$	2,360	1,918
Investments in affiliates, accounted for using the equity method	$	269	357
Investment in Liberty Broadband measured at fair value	$	3,635	—
Intangible assets not subject to amortization, net	$	29	29
Long-term debt, including current portion	$	1,846	1,667
Deferred tax liabilities	$	1,809	2,520
Attributed net assets (liabilities)	$	3,165	1,912

	Years ended December 31,		
	2017	2016	2015
	amounts in millions		
Summary operations data:			
Revenue	$ 23	428	820
Cost of sales	—	(266)	(546)
Operating expenses	(11)	(54)	(79)
Selling, general and administrative expenses (1)	(65)	(127)	(203)
Depreciation and amortization	(4)	(24)	(46)
Operating income (loss)	(57)	(43)	(54)
Interest expense	(62)	(74)	(77)
Share of earnings (losses) of affiliates, net	(238)	(110)	(233)
Realized and unrealized gains (losses) on financial instruments, net	618	1,173	72
Gains (losses) on transactions, net	1	9	110
Other, net	10	89	20
Income tax benefit (expense)	961	(301)	119
Earnings (loss) from continuing operations	1,233	743	(43)
Earnings (loss) from discontinued operations, net of taxes	—	20	280
Net earnings (loss)	1,233	763	237
Less net earnings (loss) attributable to noncontrolling interests	—	1	8
Net earnings (loss) attributable to Liberty Interactive Corporation shareholders	$ 1,233	762	229

(1) Includes stock-based compensation of $26 million, $22 million and $67 million for the years ended December 31, 2017, 2016 and 2015, respectively.

BALANCE SHEET INFORMATION

December 31, 2017

(unaudited)

	Attributed (note 1)		
	QVC Group	Ventures Group	Consolidated Liberty
	amounts in millions		
Assets			
Current assets:			
Cash and cash equivalents	$ 330	573	903
Trade and other receivables, net	1,719	7	1,726
Inventory, net	1,411	—	1,411
Other current assets	122	3	125
Total current assets	3,582	583	4,165
Investments in available-for-sale securities and other cost investments (note 1)	3	2,360	2,363
Investments in affiliates, accounted for using the equity method (note 1)	40	269	309
Investment in Liberty Broadband measured at fair value (note 1)	—	3,635	3,635
Property and equipment, net	1,340	1	1,341
Intangible assets not subject to amortization	10,982	29	11,011
Intangible assets subject to amortization, net	1,244	4	1,248
Other assets, at cost, net of accumulated amortization	46	4	50
Total assets	$ 17,237	6,885	24,122
Liabilities and Equity			
Current liabilities:			
Intergroup payable (receivable)	$ 51	(51)	—
Accounts payable	1,150	1	1,151
Accrued liabilities	1,097	28	1,125
Current portion of debt (note 1)	17	979	996
Other current liabilities	167	2	169
Total current liabilities	2,482	959	3,441
Long-term debt (note 1)	6,686	867	7,553
Deferred income tax liabilities (note 3)	994	1,809	2,803
Other liabilities	147	95	242
Total liabilities	10,309	3,730	14,039
Equity/Attributed net assets (liabilities)	6,819	3,165	9,984
Noncontrolling interests in equity of subsidiaries	109	(10)	99
Total liabilities and equity	$ 17,237	6,885	24,122

BALANCE SHEET INFORMATION

December 31, 2016

(unaudited)

	Attributed (note 1)		
	QVC Group	Ventures Group	Consolidated Liberty
	amounts in millions		
Assets			
Current assets:			
Cash and cash equivalents	$ 338	487	825
Trade and other receivables, net	1,270	38	1,308
Inventory, net	968	—	968
Other current assets	66	2	68
Total current assets	2,642	527	3,169
Investments in available-for-sale securities and other cost investments (note 1)	4	1,918	1,922
Investments in affiliates, accounted for using the equity method (note 1)	224	357	581
Investment in Liberty Broadband measured at fair value (note 1)	—	3,161	3,161
Property and equipment, net	1,131	—	1,131
Intangible assets not subject to amortization	9,325	29	9,354
Intangible assets subject to amortization, net	1,001	4	1,005
Other assets, at cost, net of accumulated amortization	30	2	32
Total assets	$ 14,357	5,998	20,355
Liabilities and Equity			
Current liabilities:			
Intergroup payable (receivable)	$ 113	(113)	—
Accounts payable	789	1	790
Accrued liabilities	684	22	706
Current portion of debt (note 1)	14	862	876
Other current liabilities	160	2	162
Total current liabilities	1,760	774	2,534
Long-term debt (note 1)	6,361	805	7,166
Deferred income tax liabilities (note 3)	1,116	2,520	3,636
Other liabilities	161	(3)	158
Total liabilities	9,398	4,096	13,494
Equity/Attributed net assets (liabilities)	4,860	1,912	6,772
Noncontrolling interests in equity of subsidiaries	99	(10)	89
Total liabilities and equity	$ 14,357	5,998	20,355

STATEMENT OF OPERATIONS INFORMATION

Year ended December 31, 2017

(unaudited)

	Attributed (note 1) QVC Group	Attributed (note 1) Ventures Group	Consolidated Liberty
	amounts in millions		
Total revenue, net	$ 10,381	23	10,404
Operating costs and expenses:			
Cost of retail sales (exclusive of depreciation shown separately below)	6,789	—	6,789
Operating expense	648	11	659
Selling, general and administrative, including stock-based compensation (note 2)	1,088	65	1,153
Acquisition and restructuring charges	35	—	35
Depreciation and amortization	721	4	725
	9,281	80	9,361
Operating income (loss)	1,100	(57)	1,043
Other income (expense):			
Interest expense	(293)	(62)	(355)
Share of earnings (losses) of affiliates, net	38	(238)	(200)
Realized and unrealized gains (losses) on financial instruments, net	—	618	618
Gains (losses) on transactions, net	409	1	410
Other, net	(3)	10	7
	151	329	480
Earnings (loss) from continuing operations before income taxes	1,251	272	1,523
Income tax benefit (expense) (note 3)	3	961	964
Net earnings (loss)	1,254	1,233	2,487
Less net earnings (loss) attributable to noncontrolling interests	46	—	46
Net earnings (loss) attributable to Liberty Interactive Corporation shareholders	$ 1,208	1,233	2,441

STATEMENT OF OPERATIONS INFORMATION

Year ended December 31, 2016

(unaudited)

	Attributed (note 1)		
	QVC Group	Ventures Group	Consolidated Liberty
	amounts in millions		
Total revenue, net	$ 10,219	428	10,647
Operating costs and expenses:			
Cost of retail sales (exclusive of depreciation shown separately below)	6,642	266	6,908
Operating expense	653	54	707
Selling, general and administrative, including stock-based compensation (note 2)	1,063	127	1,190
Depreciation and amortization	850	24	874
	9,208	471	9,679
Operating income (loss)	1,011	(43)	968
Other income (expense):			
Interest expense	(289)	(74)	(363)
Share of earnings (losses) of affiliates, net	42	(110)	(68)
Realized and unrealized gains (losses) on financial instruments, net	2	1,173	1,175
Gains (losses) on transactions, net	—	9	9
Other, net	42	89	131
	(203)	1,087	884
Earnings (loss) from continuing operations before income taxes	808	1,044	1,852
Income tax benefit (expense) (note 3)	(297)	(301)	(598)
Earnings (loss) from continuing operations	511	743	1,254
Earnings (loss) from discontinued operations, net of taxes	—	20	20
Net earnings (loss)	511	763	1,274
Less net earnings (loss) attributable to noncontrolling interests	38	1	39
Net earnings (loss) attributable to Liberty Interactive Corporation shareholders	$ 473	762	1,235

STATEMENT OF OPERATIONS INFORMATION

Year ended December 31, 2015

(unaudited)

	Attributed (note 1)		
	QVC Group	Ventures Group	Consolidated Liberty
	amounts in millions		
Total revenue, net	$ 9,169	820	9,989
Operating costs and expenses:			
Cost of retail sales (exclusive of depreciation shown separately below)	5,847	546	6,393
Operating expense	620	79	699
Selling, general and administrative, including stock-based compensation (note 2)	875	203	1,078
Depreciation and amortization	657	46	703
	7,999	874	8,873
Operating income (loss)	1,170	(54)	1,116
Other income (expense):			
Interest expense	(283)	(77)	(360)
Share of earnings (losses) of affiliates, net	55	(233)	(178)
Realized and unrealized gains (losses) on financial instruments, net	42	72	114
Gains (losses) on transactions, net	—	110	110
Other, net	(6)	20	14
	(192)	(108)	(300)
Earnings (loss) before income taxes	978	(162)	816
Income tax benefit (expense) (note 3)	(304)	119	(185)
Earnings (loss) from continuing operations	674	(43)	631
Earnings (loss) from discontinued operations, net of taxes	—	280	280
Net earnings (loss)	674	237	911
Less net earnings (loss) attributable to noncontrolling interests	34	8	42
Net earnings (loss) attributable to Liberty Interactive Corporation shareholders	$ 640	229	869

STATEMENT OF CASH FLOWS INFORMATION

Year ended December 31, 2017

(unaudited)

	Attributed (note 1)		
	QVC Group	Ventures Group	Consolidated Liberty
	amounts in millions		
Cash flows from operating activities:			
Net earnings (loss)	$ 1,254	1,233	2,487
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	721	4	725
Stock-based compensation	97	26	123
Share of (earnings) losses of affiliates, net	(38)	238	200
Cash receipts from returns on equity investments	28	1	29
Realized and unrealized (gains) losses on financial instruments, net	—	(618)	(618)
(Gains) losses on transactions, net	(409)	(1)	(410)
Deferred income tax expense (benefit)	(421)	(715)	(1,136)
Intergroup tax allocation	266	(266)	—
Intergroup tax payments	(288)	288	—
Other noncash charges (credits), net	7	3	10
Changes in operating assets and liabilities			
Current and other assets	(177)	34	(143)
Payables and other liabilities	182	43	225
Net cash provided (used) by operating activities	1,222	270	1,492
Cash flows from investing activities:			
Cash paid for acquisitions, net of cash acquired	22	—	22
Cash proceeds from dispositions of investments	2	1	3
Investment in and loans to cost and equity investees	—	(159)	(159)
Capital expended for property and equipment	(201)	(3)	(204)
Other investing activities, net	(52)	(1)	(53)
Net cash provided (used) by investing activities	(229)	(162)	(391)
Cash flows from financing activities:			
Borrowings of debt	2,469	—	2,469
Repayments of debt	(2,618)	(13)	(2,631)
Repurchases of QVC Group common stock	(765)	—	(765)
Withholding taxes on net share settlements of stock-based compensation	(43)	(27)	(70)
Other financing activities, net	(57)	18	(39)
Net cash provided (used) by financing activities	(1,014)	(22)	(1,036)
Effect of foreign currency exchange rates on cash	13	—	13
Net increase (decrease) in cash and cash equivalents	(8)	86	78
Cash and cash equivalents at beginning of period	338	487	825
Cash and cash equivalents at end of period	$ 330	573	903

STATEMENT OF CASH FLOWS INFORMATION

Year ended December 31, 2016

(unaudited)

	Attributed (note 1)		
	QVC Group	Ventures Group	Consolidated Liberty
		amounts in millions	
Cash flows from operating activities:			
Net earnings (loss)	$ 511	763	1,274
Adjustments to reconcile net earnings to net cash provided by operating activities:			
(Earnings) loss from discontinued operations	—	(20)	(20)
Depreciation and amortization	850	24	874
Stock-based compensation	75	22	97
Cash payments for stock-based compensation	—	(92)	(92)
Noncash interest expense	3	9	12
Share of (earnings) losses of affiliates, net	(42)	110	68
Cash receipts from returns on equity investments	28	3	31
Realized and unrealized (gains) losses on financial instruments, net	(2)	(1,173)	(1,175)
(Gains) losses on transactions, net	—	(9)	(9)
(Gains) losses on extinguishment of debt	(1)	7	6
Deferred income tax expense (benefit)	(199)	672	473
Intergroup tax allocation	360	(360)	—
Intergroup tax payments	(301)	301	—
Other noncash charges (credits), net	(33)	(82)	(115)
Changes in operating assets and liabilities			
Current and other assets	92	44	136
Payables and other liabilities	(68)	(49)	(117)
Net cash provided (used) by operating activities	1,273	170	1,443
Cash flows from investing activities:			
Cash proceeds from dispositions	—	353	353
Investment in and loans to cost and equity investees	—	(86)	(86)
Capital expended for property and equipment	(206)	(27)	(233)
Purchases of short term investments and other marketable securities	—	(264)	(264)
Sales of short term investments and other marketable securities	12	1,162	1,174
Investment in Liberty Broadband	—	(2,400)	(2,400)
Other investing activities, net	(44)	8	(36)
Net cash provided (used) by investing activities	(238)	(1,254)	(1,492)
Cash flows from financing activities:			
Borrowings of debt	1,905	1,522	3,427
Repayments of debt	(2,178)	(2,320)	(4,498)
Repurchases of QVC Group common stock	(799)	—	(799)
Withholding taxes on net share settlements of stock-based compensation	(15)	(1)	(16)
Distribution from Liberty Expedia Holdings	—	299	299
Other financing activities, net	(16)	31	15
Net cash provided (used) by financing activities	(1,103)	(469)	(1,572)
Effect of foreign currency exchange rates on cash	(20)	—	(20)
Net cash provided (used) by discontinued operations:			
Cash provided (used) by operating activities	—	17	17
Cash provided (used) by investing activities	—	—	—
Cash provided (used) by financing activities	—	—	—
Change in available cash held by discontinued operations	—	—	—
Net cash provided (used) by discontinued operations	—	17	17
Net increase (decrease) in cash and cash equivalents	(88)	(1,536)	(1,624)
Cash and cash equivalents at beginning of period	426	2,023	2,449
Cash and cash equivalents at end of period	$ 338	487	825

STATEMENT OF CASH FLOWS INFORMATION

Year ended December 31, 2015

(unaudited)

	Attributed (note 1)		
	QVC Group	Ventures Group	Consolidated Liberty
		amounts in millions	
Cash flows from operating activities:			
Net earnings (loss)	$ 674	237	911
Adjustments to reconcile net earnings to net cash provided by operating activities:			
(Earnings) loss from discontinued operations	—	(280)	(280)
Depreciation and amortization	657	46	703
Stock-based compensation	60	67	127
Cash payments for stock-based compensation	—	(16)	(16)
Noncash interest expense	6	(1)	5
Share of losses (earnings) of affiliates, net	(55)	233	178
Cash receipts from return on equity investments	22	10	32
Realized and unrealized gains (losses) on financial instruments, net	(42)	(72)	(114)
(Gains) losses on transactions, net	—	(110)	(110)
(Gains) losses on extinguishment of debt	21	—	21
Deferred income tax (benefit) expense	(122)	19	(103)
Intergroup tax allocation	141	(141)	—
Intergroup tax payments	(101)	101	—
Other noncash charges (credits), net	(14)	3	(11)
Changes in operating assets and liabilities			
Current and other assets	(245)	8	(237)
Payables and other current liabilities	3	(47)	(44)
Net cash provided (used) by operating activities	1,005	57	1,062
Cash flows from investing activities:			
Cash paid for acquisitions, net of cash acquired	(824)	(20)	(844)
Cash proceeds from dispositions	—	271	271
Investments in and loans to cost and equity investees	—	(120)	(120)
Cash receipts from returns of equity investments	200	50	250
Capital expended for property and equipment	(218)	(40)	(258)
Purchases of short term and other marketable securities	(184)	(1,186)	(1,370)
Sales of short term investments and other marketable securities	193	1,166	1,359
Other investing activities, net	(76)	—	(76)
Net cash provided (used) by investing activities	(909)	121	(788)
Cash flows from financing activities:			
Borrowings of debt	3,969	589	4,558
Repayments of debt	(3,244)	(567)	(3,811)
Repurchases of QVC Group common stock	(785)	—	(785)
Minimum withholding taxes on net share settlements of stock-based compensation	(25)	(5)	(30)
Other financing activities, net	(4)	(50)	(54)
Net cash provided (used) by financing activities	(89)	(33)	(122)
Effect of foreign currency rates on cash	(3)	—	(3)
Net cash provided (used) by discontinued operations:			
Cash provided (used) by operating activities	—	17	17
Cash provided (used) by investing activities	—	(23)	(23)
Cash provided (used) by financing activities	—	—	—
Change in available cash held by discontinued operations	—	—	—
Net cash provided (used) by discontinued operations	—	(6)	(6)
Net increase (decrease) in cash and cash equivalents	4	139	143
Cash and cash equivalents at beginning of period	422	1,884	2,306
Cash and cash equivalents at end period	$ 426	2,023	2,449

Notes to Attributed Financial Information

(unaudited)

(1) The QVC Group is comprised of our consolidated subsidiaries, QVC and zulily (as of October 1, 2015), and HSNi (as of December 29, 2017). As discussed in note 5 of the accompanying consolidated financial statements, on December 29, 2017, Liberty acquired the approximate remaining 62% of HSNi it did not already own in an all-stock transaction making HSNi a wholly-owned subsidiary, attributed to the QVC Group tracking stock group. Accordingly, the accompanying attributed financial information for the QVC Group includes the assets, liabilities, revenue, expenses and cash flows of QVC, HSNi and zulily. We have also attributed certain of our debt obligations (and related interest expense) to the QVC Group based upon a number of factors, including the cash flow available to the QVC Group and its ability to pay debt service and our assessment of the optimal capitalization for the QVC Group. In addition, we have allocated certain corporate general and administrative expenses between the QVC Group and the Ventures Group as described in note 2 below.

The QVC Group is primarily comprised of our merchandise-focused televised-shopping programs, Internet and mobile application businesses. Accordingly, we expect that businesses that we may acquire in the future that we believe are complementary to this strategy will also be attributed to the QVC Group.

The Ventures Group consists of all of our businesses not included in the QVC Group including Evite and interests in Liberty Broadband, LendingTree and FTD and available-for-sale securities Charter and ILG. Accordingly, the accompanying attributed financial information for the Ventures Group includes these investments, as well as the assets, liabilities, revenue, expenses and cash flows of the Digital Commerce businesses. In addition, we have attributed to the Ventures Group all of our senior exchangeable debentures (and related interest expense).

Any businesses that we may acquire in the future that we do not attribute to the QVC Group will be attributed to the Ventures Group.

As discussed in note 1 to the accompanying consolidated financial statements, on May 18, 2016, Liberty completed a $2.4 billion investment in Liberty Broadband in connection with the merger of Charter and Time Warner Cable Inc. ("TWC"). The proceeds of this investment were used by Liberty Broadband to fund, in part, its acquisition of $5 billion of stock in the new public parent company of the combined enterprises. Liberty, along with third party investors, all of whom invested on the same terms as Liberty, purchased newly issued shares of Liberty Broadband Series C common stock at a per share price of $56.23, which was determined based upon the fair value of Liberty Broadband's net assets on a sum-of-the parts basis at the time the investment agreements were executed. Liberty's investment in Liberty Broadband was funded using cash on hand and is attributed to the Ventures Group.

For information relating to investments in available for sale securities and other cost investments, investments in affiliates accounted for using the equity method and debt, see notes 8, 9 and 11, respectively, of the accompanying consolidated financial statements.

(2) Cash compensation expense for our corporate employees will be allocated among the QVC Group and the Ventures Group based on the estimated percentage of time spent providing services for each group. On a semi-annual basis estimated time spent will be determined through an interview process and a review of personnel duties unless transactions significantly change the composition of companies and investments in either respective group which would require a more timely reevaluation of estimated time spent. Other general and administrative expenses will be charged directly to the groups whenever possible and are otherwise allocated based on estimated usage or some other reasonably determined methodology. Amounts allocated from the QVC Group to the Ventures Group was determined to be $27 million, $38 million and $20 million for the years ended December 31, 2017, 2016 and 2015, respectively. We note that stock compensation related to each tracking stock group is determined based on actual options outstanding for each respective tracking stock group.

While we believe that this allocation method is reasonable and fair to each group, we may elect to change the allocation methodology or percentages used to allocate general and administrative expenses in the future.

(3) We have accounted for income taxes for the QVC Group and the Ventures Group in the accompanying attributed financial information in a manner similar to a stand-alone company basis. To the extent this methodology differs from our tax sharing policy, differences have been reflected in the attributed net assets of the groups.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act makes broad and complex changes to the U.S. tax code. See note 12 to the accompanying consolidated financial statements for more information regarding the impact of the Tax Act.

QVC Group

Income tax benefit (expense) consists of:

	Years ended December 31,		
	2017	2016	2015
	amounts in millions		
Current:			
Federal	$ (312)	(403)	(331)
State and local	(18)	(20)	(20)
Foreign	(88)	(73)	(75)
	$ (418)	(496)	(426)
Deferred:			
Federal	$ 428	185	101
State and local	(7)	10	14
Foreign	—	4	7
	421	199	122
Income tax benefit (expense)	$ 3	(297)	(304)

Income tax benefit (expense) differs from the amounts computed by applying the U.S. federal income tax rate of 35% as a result of the following:

	Years ended December 31,		
	2017	2016	2015
	amounts in millions		
Computed expected tax benefit (expense)	$ (438)	(283)	(343)
State and local income taxes, net of federal income taxes	(13)	(4)	(12)
Foreign taxes, net of foreign tax credits	(32)	(9)	(5)
Change in valuation allowance affecting tax expense	(105)	(15)	2
Dividends received deductions	8	7	49
Change in tax rate due to tax reform	442	—	—
Other change in tax rate	(10)	1	(4)
Consolidation of equity investment	138	—	—
Other, net	13	6	9
Income tax benefit (expense)	$ 3	(297)	(304)

The tax effects of temporary differences that give rise to significant portions of the deferred income tax assets and deferred income tax liabilities are presented below:

	December 31, 2017	December 31, 2016
	amounts in millions	
Deferred tax assets:		
Net operating and capital loss carryforwards	$ 81	58
Foreign tax credit carryforwards	98	134
Accrued stock compensation	44	45
Other accrued liabilities	19	117
Other future deductible amounts	184	131
Deferred tax assets	426	485
Valuation allowance	(164)	(59)
Net deferred tax assets	262	426
Deferred tax liabilities:		
Intangible assets	1,186	1,537
Other deferred tax liabilities	70	5
Deferred tax liabilities	1,256	1,542
Net deferred tax liabilities	$ 994	1,116

The Company's deferred tax assets and liabilities are reported in the accompanying balance sheet information as follows:

Ventures Group

Income tax benefit (expense) consists of:

	Years ended December 31, 2017	2016	2015
	amounts in millions		
Current:			
Federal	$ 251	363	143
State and local	(5)	8	(6)
Foreign	—	—	1
	$ 246	371	138
Deferred:			
Federal	$ 838	(629)	(27)
State and local	(123)	(43)	7
Foreign	—	—	1
	715	(672)	(19)
Income tax benefit (expense)	$ 961	(301)	119

Income tax benefit (expense) differs from the amounts computed by applying the U.S. federal income tax rate of 35% as a result of the following:

	Years ended December 31,		
	2017	2016	2015
	amounts in millions		
Computed expected tax benefit (expense)	$ (95)	(366)	57
State and local income taxes, net of federal income taxes	(13)	(22)	(3)
Change in valuation allowance affecting tax expense	4	(1)	4
Dividends received deductions	2	2	2
Alternative energy tax credits and incentives	85	94	61
Change in tax rate due to tax reform	1,043	—	—
Other change in tax rate	(74)	—	(3)
Other, net	9	(8)	1
Income tax benefit (expense)	$ 961	(301)	119

The tax effects of temporary differences that give rise to significant portions of the deferred income tax assets and deferred income tax liabilities are presented below:

	December 31,	
	2017	2016
	amounts in millions	
Deferred tax assets:		
Net operating and capital loss carryforwards	$ 79	65
Accrued stock compensation	7	11
Other future deductible amounts	6	14
Deferred tax assets	92	90
Valuation allowance	(1)	(5)
Net deferred tax assets	91	85
Deferred tax liabilities:		
Investments	874	1,069
Intangible assets	2	3
Discount on exchangeable debentures	981	1,404
Deferred gain on debt retirements	43	129
Other deferred tax liabilities	—	—
Deferred tax liabilities	1,900	2,605
Net deferred tax liabilities	$ 1,809	2,520

Intergroup payable (receivable)

The intergroup balances, at December 31, 2017 and 2016, are primarily a result of timing of tax benefits.

(4) The QVC Group Stock and the Liberty Ventures Stock have voting and conversion rights under our restated charter. Following is a summary of those rights. Holders of Series A common stock of each group is entitled to one vote per share, and holders of Series B common stock of each group are entitled to ten votes per share. Holders of Series C common stock of each group, if issued, are entitled to 1/100th of a vote per share in certain limited cases and will otherwise not be entitled to vote. In general, holders of Series A and Series B common stock will vote as a single class. In certain limited circumstances, the board may elect to seek the approval of the holders of only Series A and Series B QVC Group common stock or the approval of the holders of only Series A and Series B Liberty Ventures common stock.

At the option of the holder, each share of Series B common stock will be convertible into one share of Series A common stock of the same group. At the discretion of our board, the common stock related to one group may be converted into common stock of the same series that is related to the other group.

BOARD OF DIRECTORS

Gregory B. Maffei
Chairman of the Board
Qurate Retail, Inc.

Richard N. Barton
Co-Founder and Executive Chairman
Zillow Group, Inc.

Fiona P. Dias
Principal Digital Partner
Ryan Retail Consulting

Michael A. George
President and Chief Executive Officer
Qurate Retail, Inc.

M. Ian G. Gilchrist
Retired Investment Banker

Evan D. Malone, Ph.D.
President
NextFab Studio, LLC

John C. Malone
Former Chairman of the Board
Qurate Retail, Inc.

David E. Rapley
Retired President and Chief
Executive Officer
Rapley Consulting, Inc.

M. LaVoy Robison
Director
The Anschutz Foundation

Larry E. Romrell
Retired Executive Vice President
Tele-Communications, Inc.

Mark Vadon
Co-Founder and Former
Chairman of the Board
zulily, llc

Andrea L. Wong
Former President,
International Production
Sony Pictures Television
Former President, International
Sony Pictures Entertainment

EXECUTIVE COMMITTEE

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Gregory B. Maffei

John C. Malone

COMPENSATION COMMITTEE

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Mark Vadon

Andrea L. Wong

AUDIT COMMITTEE

M. Ian G. Gilchrist (Chairman)

David E. Rapley

M. LaVoy Robison

Larry E. Romrell

NOMINATING & CORPORATE GOVERNANCE COMMITTEE

David E. Rapley (Chairman)

Richard N. Barton

Mark Vadon

SENIOR OFFICERS

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Chairman of the Board

Michael A. George
President and Chief Executive Officer

Richard N. Baer
Chief Legal Officer

Mark D. Carleton
Chief Financial Officer

Albert E. Rosenthaler
Chief Corporate Development Officer

CORPORATE SECRETARY

Pamela L. Coe

CORPORATE HEADQUARTERS

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Englewood, CO 80112
(720) 875-5300

STOCK INFORMATION

Series A and B QVC Group Common Stock (QRTEA/B) trade on the NASDAQ Global Select Market.

CUSIP NUMBERS

QRTEA – 74915M100
QRTEB – 74915M209

TRANSFER AGENT

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ON THE INTERNET

Visit the Qurate Retail, Inc. website at *www.qurateretail.com*.

FINANCIAL STATEMENTS

Qurate Retail, Inc. financial statements are filed with the Securities and Exchange Commission. Copies of these financial statements can be obtained from the Transfer Agent or through the Qurate Retail, Inc. website.

Liberty Interactive Coporation was renamed Qurate Retail, Inc. on April 9, 2018

qurate
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