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# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, D.C. 20549**

# FORM 10-Q

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

**For the quarterly period ended September 30, 2018**

**OR**

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

**For the transition period from to**

**Commission File Number 000-55409**

# QVC, Inc.

(Exact name of Registrant as specified in its charter)

| | |
|---|---|
| **State of Delaware**<br>(State or other jurisdiction of incorporation or organization) | **23-2414041**<br>(I.R.S. Employer Identification Number) |
| **1200 Wilson Drive**<br>**West Chester, Pennsylvania**<br>(Address of principal executive offices) | **19380**<br>(Zip Code) |

Registrant's telephone number, including area code: **(484) 701-1000**

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒ Smaller reporting company ☐ Emerging growth company ☐

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

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

None of the voting stock of the registrant is held by a non-affiliate of the registrant. There is no publicly traded market for any class of voting stock of the registrant. There is one holder of record of our equity, Liberty QVC Holding, LLC, an indirect wholly-owned subsidiary of Qurate Retail, Inc.

**QVC, Inc.**
**2018 QUARTERLY REPORT ON FORM 10-Q**

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## Item 1. Financial Statements

### QVC, Inc.

### Condensed Consolidated Balance Sheets

### (unaudited)

| (in millions, except share amounts) | September 30, 2018 | December 31, 2017 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 388 | 260 |
| Restricted cash | 7 | 8 |
| Accounts receivable, less allowance for doubtful accounts of $83 at September 30, 2018 and $91 at December 31, 2017 | 951 | 1,388 |
| Inventories | 1,173 | 1,019 |
| Prepaid expenses and other current assets | 114 | 51 |
| Total current assets | 2,633 | 2,726 |
| Property and equipment, net of accumulated depreciation of $1,244 at September 30, 2018 and $1,174 at December 31, 2017 | 981 | 1,005 |
| Television distribution rights, net | 107 | 78 |
| Goodwill | 5,051 | 5,075 |
| Other intangible assets, net | 2,590 | 2,605 |
| Other noncurrent assets | 58 | 61 |
| Total assets | $ 11,420 | 11,550 |
| **Liabilities and equity** | | |
| Current liabilities: | | |
| Current portion of debt and capital lease obligations | $ 419 | 17 |
| Accounts payable-trade | 784 | 756 |
| Accrued liabilities | 679 | 872 |
| Total current liabilities | 1,882 | 1,645 |
| Long-term portion of debt and capital lease obligations | 4,183 | 5,173 |
| Deferred income taxes | 464 | 473 |
| Other long-term liabilities | 136 | 117 |
| Total liabilities | 6,665 | 7,408 |
| Equity: | | |
| QVC, Inc. stockholder's equity: | | |
| Common stock, $0.01 par value, 1 authorized share | — | — |
| Additional paid-in capital | 7,257 | 6,897 |
| Accumulated deficit | (2,481 ) | (2,772 ) |
| Accumulated other comprehensive loss | (140 ) | (93 ) |
| Total QVC, Inc. stockholder's equity | 4,636 | 4,032 |
| Noncontrolling interest | 119 | 110 |
| Total equity | 4,755 | 4,142 |
| Total liabilities and equity | $ 11,420 | 11,550 |

See accompanying notes to condensed consolidated financial statements.

**QVC, Inc.**

**Condensed Consolidated Statements of Operations**

**(unaudited)**

| (in millions) | Three months ended September 30, 2018 | Three months ended September 30, 2017 | Nine months ended September 30, 2018 | Nine months ended September 30, 2017 |
|---|---|---|---|---|
| Net revenue | $ 2,058 | 2,010 | 6,234 | 5,954 |
| Operating costs and expenses: | | | | |
| Cost of goods sold (exclusive of depreciation and amortization shown separately below) | 1,300 | 1,282 | 3,906 | 3,755 |
| Operating | 144 | 145 | 433 | 419 |
| Selling, general and administrative, including transaction related costs and stock-based compensation | 235 | 180 | 652 | 489 |
| Depreciation | 36 | 38 | 110 | 116 |
| Amortization | 42 | 91 | 119 | 324 |
| | 1,757 | 1,736 | 5,220 | 5,103 |
| Operating income | 301 | 274 | 1,014 | 851 |
| Other (expense) income: | | | | |
| Equity in losses of investee | (1) | — | (2) | (3) |
| Interest expense, net | (57) | (54) | (172) | (165) |
| Foreign currency (loss) gain | (1) | 4 | — | (6) |
| | (59) | (50) | (174) | (174) |
| Income before income taxes | 242 | 224 | 840 | 677 |
| Income tax expense | (69) | (58) | (224) | (225) |
| Net income | 173 | 166 | 616 | 452 |
| Less net income attributable to the noncontrolling interest | (11) | (12) | (33) | (33) |
| Net income attributable to QVC, Inc. stockholder | $ 162 | 154 | 583 | 419 |

See accompanying notes to condensed consolidated financial statements.

**QVC, Inc.**

**Condensed Consolidated Statements of Comprehensive Income**

**(unaudited)**

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| **(in millions)** | **2018** | **2017** | **2018** | **2017** |
| Net income | $ 173 | 166 | 616 | 452 |
| Foreign currency translation adjustments, net of tax | (22) | 28 | (48) | 110 |
| Total comprehensive income | 151 | 194 | 568 | 562 |
| Comprehensive income attributable to noncontrolling interest | (8) | (12) | (32) | (37) |
| Comprehensive income attributable to QVC, Inc. stockholder | $ 143 | 182 | 536 | 525 |

See accompanying notes to condensed consolidated financial statements.

**QVC, Inc.**

**Condensed Consolidated Statements of Cash Flows**

**(unaudited)**

| | | Nine months ended September 30, | |
|---|---|---|---|
| **(in millions)** | | **2018** | **2017** |
| Operating activities: | | | |
| Net income | $ | 616 | 452 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Equity in losses of investee | | 2 | 3 |
| Deferred income taxes | | (9) | (73) |
| Foreign currency loss | | — | 6 |
| Depreciation | | 110 | 116 |
| Amortization | | 119 | 324 |
| Change in fair value of financial instruments and noncash interest | | 5 | 5 |
| Stock-based compensation | | 30 | 23 |
| Change in other long-term liabilities | | 19 | (7) |
| Effects of changes in working capital items | | 48 | 58 |
| Net cash provided by operating activities | | 940 | 907 |
| Investing activities: | | | |
| Capital expenditures | | (125) | (83) |
| Expenditures for television distribution rights | | (80) | (35) |
| Changes in other noncurrent assets | | 1 | (2) |
| Net cash used in investing activities | | (204) | (120) |
| Financing activities: | | | |
| Principal payments of debt and capital lease obligations | | (2,285) | (1,791) |
| Principal borrowings of debt from senior secured credit facility | | 1,451 | 1,574 |
| Proceeds from issuance of senior secured notes | | 225 | — |
| Payment of debt origination fees | | (8) | — |
| Capital contributions received from Qurate Retail, Inc. | | 340 | — |
| Dividends paid to Qurate Retail, Inc. | | (297) | (491) |
| Dividends paid to noncontrolling interest | | (23) | (22) |
| Other financing activities | | (10) | (10) |
| Net cash used in financing activities | | (607) | (740) |
| Effect of foreign exchange rate changes on cash, cash equivalents and restricted cash | | (2) | 13 |
| Net increase in cash, cash equivalents and restricted cash | | 127 | 60 |
| Cash, cash equivalents and restricted cash, beginning of period | | 268 | 294 |
| Cash, cash equivalents and restricted cash, end of period | $ | 395 | 354 |
| Effects of changes in working capital items: | | | |
| Decrease in accounts receivable | $ | 434 | 369 |
| Increase in inventories | | (188) | (191) |
| Increase in prepaid expenses and other current assets | | (65) | (4) |
| Increase in accounts payable-trade | | 30 | 20 |
| Decrease in accrued liabilities and other | | (163) | (136) |
| Effects of changes in working capital items | $ | 48 | 58 |

See accompanying notes to condensed consolidated financial statements.

**QVC, Inc.**

**Condensed Consolidated Statement of Equity**

**(unaudited)**

| | Common stock | | | | | | |
|---|---|---|---|---|---|---|---|
| **(in millions, except share data)** | **Shares** | **Amount** | **Additional paid-in capital** | **Accumulated deficit** | **Accumulated other comprehensive loss** | **Noncontrolling interest** | **Total equity** |
| Balance, December 31, 2017 | 1 | $ — | 6,897 | (2,772) | (93) | 110 | 4,142 |
| Prior period adjustments due to adoption of new accounting pronouncements | — | — | — | 13 | — | — | 13 |
| Net income | — | — | — | 583 | — | 33 | 616 |
| Foreign currency translation adjustments, net of tax | — | — | — | — | (47) | (1) | (48) |
| Capital contributions received from Qurate Retail, Inc. | — | — | 340 | — | — | — | 340 |
| Dividends paid to Qurate Retail, Inc. and noncontrolling interest and other | — | — | — | (297) | — | (23) | (320) |
| Impact of tax liability allocation and indemnification agreement with Qurate Retail, Inc. | — | — | — | (8) | — | — | (8) |
| Withholding taxes on net share settlements of stock-based compensation | — | — | (10) | — | — | — | (10) |
| Stock-based compensation | — | — | 30 | — | — | — | 30 |
| Balance, September 30, 2018 | 1 | $ — | 7,257 | (2,481) | (140) | 119 | 4,755 |

See accompanying notes to condensed consolidated financial statements.

**QVC, Inc.**

**Notes to Condensed Consolidated Financial Statements**

**(unaudited)**

**(1) Basis of Presentation**

QVC, Inc. and its consolidated subsidiaries ("QVC" or the "Company") 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 United States ("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, Facebook, etc.).

QVC believes that the Company's digital platforms complement the Company's televised shopping programs by allowing consumers to purchase a wide assortment of goods offered on QVC's televised programs, as well as other products that are available only onthe Company's digital platforms. The Company views e-commerce as a natural extension of the Company's business, allowing the Company to stream live video and offer on-demand video segments of items recently presented live onQVC's televised programs. The Company's digital platforms allow shoppers to browse, research, compare and perform targeted searches for products, control the order-entry process and conveniently access their QVC account.

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 United Kingdom ("U.K."), the Republic of Ireland, Italy and France. 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 and 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.

The Company's Japanese operations ("QVC-Japan") are conducted through a joint venture with Mitsui & Co., LTD ("Mitsui"). QVC-Japan is owned60% by the Company and 40% by Mitsui. The Company and Mitsui share in all profits and losses based on their respective ownership interests. During thenine months ended September 30, 2018 and 2017, QVC-Japan paid dividends to Mitsui of $23 million and $22 million, respectively.

The Company 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"). The Company 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. This joint venture is accounted for as an equity method investment recorded as equity in losses of investee in the condensed consolidated statements of operations.

The Company is an indirect wholly-owned subsidiary of Qurate Retail, Inc. ("Qurate Retail") (formerly Liberty Interactive Corporation)(Nasdaq: QRTEA and QRTEB), which owns interests in a broad range of digital commerce businesses, including Qurate Retail's other wholly-owned subsidiaries HSN, Inc. ("HSN") and zulily, llc ("zulily"), as well as other minority investments. QVC is part of the Qurate Retail Group ("QRG"), formerly QVC Group, a portfolio of brands including QVC, HSN, zulily and the Cornerstone brands. On March 9, 2018, Qurate Retail, GCI Liberty, Inc. ("GCI Liberty") (formerly General Communication, Inc.), an Alaska corporation, and Liberty Interactive LLC, a Delaware limited liability company and a direct wholly-owned subsidiary of Qurate Retail completed transactions whereby Qurate Retail acquired GCI Liberty through a reorganization in which certain assets and liabilities attributed to Qurate Retail’s Ventures Group were contributed to GCI Liberty in exchange for a controlling interest in GCI Liberty. Qurate Retail then effected a tax-free separation of its controlling interest in the combined company. Qurate Retail's QVC Group common stock became the only outstanding common stock of Qurate Retail.

**QVC, Inc.**

**Notes to Condensed Consolidated Financial Statements (continued)**

**(unaudited)**

On October 1, 2015, Qurate Retail acquired all of the outstanding shares of 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 each day for a limited time period. The Company believes that its business is complementary to the Company. zulily is not part of the results of operations or financial position of QVC presented in these condensed consolidated financial statements. During each of the nine months ended September 30, 2018 and 2017, QVC and zulily engaged in multiple transactions relating to personnel, sales, sourcing of merchandise, marketing initiatives and business advisory services. The gross value of these transactions totaled approximately $8 million and $7 million for the nine months ended September 30, 2018 and 2017, respectively, which did not have a material impact on QVC's financial position, results of operations, or liquidity.

On June 23, 2016, QVC amended and restated its senior secured credit facility (the "Third Amended and Restated Credit Agreement") increasing the revolving credit facility from $2.25 billion to $2.65 billion as explained further in note 6. The Third Amended and Restated Credit Agreement includes a $400 million tranche that may be borrowed by QVC or zulily. Under the terms of the Third Amended and Restated Credit Agreement, QVC and zulily are jointly and severally liable for all amounts borrowed on the $400 million tranche. In accordance with the accounting guidance for obligations resulting from joint and several liability arrangements, QVC will record a liability for amounts it has borrowed under the credit facility plus any additional amount it expects to repay on behalf of zulily. As of September 30, 2018, there was $150 million borrowed by zulily on the $400 million tranche of the Third Amended and Restated Credit Agreement, none of which the Company expects to repay on behalf of zulily.

On December 29, 2017, Qurate Retail completed the acquisition of the remaining 62% ownership interest of HSN in an all-stock transaction. HSN is not included in the results of operations or financial position of QVC presented in the Company's condensed consolidated financial statements. During the nine months ended September 30, 2018, QVC and HSN engaged in transactions relating to personnel, sales, sourcing of merchandise, marketing initiatives, business advisory services, and software development. The gross value of these transactions totaled $28 million, which did not have a material impact on QVC's financial position, results of operations, or liquidity.

On October 17, 2018, QRG announced a series of initiatives designed to better position its HSN and QVC- U.S. businesses (“QRG Initiatives”). As part of the QRG Initiatives, QVC will close its fulfillment center in Lancaster, Pennsylvania and has entered into an agreement to lease a new fulfillment center in Bethlehem, Pennsylvania, commencing in 2019 (see note 7). QVC recorded transaction related costs of $28 million during the third quarter of 2018, which primarily related to severance as a result of the QRG initiatives.

The condensed consolidated financial statements include the accounts of QVC, Inc. and its majority-owned subsidiaries. All significant intercompany accounts and transactions were eliminated in consolidation.

The accompanying (a) condensed consolidated balance sheet as of December 31, 2017, which has been derived from audited financial statements, and (b) the interim unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X as promulgated by the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the results for such periods have been included. The results of operations for any interim period are not necessarily indicative of results for the full year. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in QVC's Annual Report on Form 10-K for the year ended December 31, 2017.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent 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. Estimates include, but are not limited to, sales returns, uncollectible receivables, inventory obsolescence, medical and other benefit related costs, depreciable lives of fixed assets, internally-developed software, valuation of acquired intangible assets and goodwill, income taxes and stock-based compensation.

**QVC, Inc.**

**Notes to Condensed Consolidated Financial Statements (continued)**

**(unaudited)**

**Adoption of new accounting pronouncements**

On May 28, 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers*, which 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, changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. In March 2016, the FASB issued ASU No. 2016-08, which clarifies principal versus agent considerations, in April 2016, the FASB issued ASU No. 2016-10, which clarifies the identification of performance obligations and the implementation guidance for licensing, and in May 2016, the FASB issued ASU No. 2016-12, which clarifies assessing collectibility, presentation of sales taxes, noncash consideration, and completed contracts and contract modifications at transition. On January 1, 2018, the Company adopted the new accounting standard ASC 606, *Revenue from Contracts with Customers,* and all related amendments ("ASC 606") to all contracts using the modified retrospective method. The Company recognized the cumulative effect of initially applying the new revenue standard as a $14 million adjustment to the opening balance of retained earnings. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. The Company does not expect the adoption of the new revenue standard to have a material impact to its net income on an ongoing basis. Refer to the table below for the adoption of this guidance.

In October 2016, the FASB issued ASU No. 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*, which requires an entity to recognize at the transaction date the income tax consequences of intercompany asset transfers other than inventory. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. The Company adopted this guidance on January 1, 2018 and there was no significant effect of the standard on its condensed consolidated financial statements.

The cumulative effect of the changes due to the adoption of ASC 606 and ASU No. 2016-16 were as follows:

| (in millions) | Balance at December 31, 2017 | Adjustments Due to ASC 606 | Adjustments Due to ASU 2016-16 | Balance at January 1, 2018 |
|---|---|---|---|---|
| **Assets:** | | | | |
| Inventories | $ 1,019 | (22) | — | 997 |
| Prepaid expenses and other current assets | 51 | — | (1) | 50 |
| | | | | |
| **Liabilities:** | | | | |
| Accrued liabilities | 872 | (36) | — | 836 |
| | | | | |
| **Equity:** | | | | |
| Accumulated deficit | $ (2,772) | 14 | (1) | (2,759) |

In accordance with the new revenue standard requirements, the impact of adoption on our condensed consolidated statements of operations was as follows:

| Statements of Operations | Three months ended September 30, 2018 | | | Nine months ended September 30, 2018 | | |
|---|---|---|---|---|---|---|
| (in millions) | As Reported | Balances Without Adoption of ASC 606 | Effect of Change Increase/(Decrease) | As Reported | Balances Without Adoption of ASC 606 | Effect of Change Increase/(Decrease) |
| Net revenue | $ 2,058 | 2,020 | 38 | 6,234 | 6,126 | 108 |
| | | | | | | |
| Costs and expenses: | | | | | | |
| Cost of goods sold | 1,300 | 1,295 | 5 | 3,906 | 3,892 | 14 |
| Operating | 144 | 142 | 2 | 433 | 430 | 3 |
| Selling, general and administrative, including transaction related costs and stock-based compensation | 235 | 209 | 26 | 652 | 574 | 78 |
| | | | | | | |
| Income tax expense | 69 | 68 | 1 | 224 | 221 | 3 |
| | | | | | | |
| Net income | $ 173 | 169 | 4 | 616 | 606 | 10 |

The effect of changes of adoption is primarily due to the timing of revenue recognition and the classification of income for its QVC-branded credit card ("Q-Card Income"). For the three and nine months ended September 30, 2018, revenue is recognized at the time of shipment to its customers consistent with when control passes and Q-Card Income is recognized in revenue. For the three and nine months ended September 30, 2017, revenue was recognized at the time of delivery to the customers and deferred revenue was recorded to account for the shipments in-transit. In addition, Q-Card Income was recognized as an offset to selling, general and administrative expenses. The Company also recognized a separate $58 million asset (included in prepaid expenses and other current assets) related to the expected return of inventory and a $140 million liability (included in accrued liabilities) relating to its sales return reserve at September 30, 2018, instead of the net presentation of the liability that was reported at December 31, 2017 and September 30, 2017.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Statements - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which 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. The Company adopted this guidance during the first quarter of 2018 and there was no significant effect of the standard on its financial reporting.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230)*: *Classification of Certain Cash Receipts and Cash Payments*, which addresses eight specific cash flow issues to reduce the diversity in practice for appropriate classification on the statement of cash flows. The amendments in this ASU are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017 with early adoption permitted. The Company adopted this guidance during the first quarter of 2018 and there was no significant effect of the standard on its condensed consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. The Company adopted this guidance during the first quarter of 2018 and has reclassified prior period balances in cash and cash equivalents within the condensed consolidated statements of cash flows in order to conform with current period presentation.

**QVC, Inc.**

**Notes to Condensed Consolidated Financial Statements (continued)**

**(unaudited)**

In May 2017, the FASB issued ASU No. 2017-09,*Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting* to provide clarity to which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The amendments in this update are effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017 with early adoption permitted. The Company adopted this guidance during the first quarter of 2018 and there was no significant effect of the standard on its condensed consolidated financial statements.

**Accounting pronouncements issued but not yet adopted**

In February 2016, the FASB issued ASU No. 2016-02,*Leases (Topic 842)*, which revises the accounting treatment related to lessee accounting. Under the new guidance, lessees will be required to recognize a lease liability and a right-of-use asset for all leases. The new lease guidance also simplifies the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. In July 2018, the FASB issued ASU No. 2018-11, which provides entities a transition method in which the entity may apply the new lease standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings at January 1, 2019. The Company intends to elect this optional transition method. While the Company is currently evaluating the effect that the updated standard will have on its ongoing financial reporting, it expects that the operating leases listed in note 7 - *Leases* will be recognized as right of- use assets and operating lease liabilities on the consolidated balance sheets upon adoption of the new standard. The Company does not anticipate that the adoption will have a material impact on its consolidated statements of operations.

In February 2018, the FASB issued ASU 2018-02,*Income Statement - Reporting Comprehensive Income (Topic 220),* which addresses the effect of the change in the U.S. federal corporate tax rate due to the enactment of the December 22, 2017 Tax Cuts and Jobs Act (the "Tax Act") on items within accumulated other comprehensive income (loss). The guidance will be effective for the Company in the first quarter of 2019 with early adoption permitted. The Company is currently assessing the impact that adopting this new accounting standard will have on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15,*Intangibles- Goodwill and Other- Internal-Use Software (Subtopic 350-40)*, which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The guidance will be effective for the Company in the first quarter of 2020 with early adoption permitted. The Company is currently assessing the impact that adopting this new accounting standard will have on its consolidated financial statements.

**QVC, Inc.**

**Notes to Condensed Consolidated Financial Statements (continued)**

**(unaudited)**

### (2) Television Distribution Rights, Net

Television distribution rights consisted of the following:

| (in millions) | | September 30, 2018 | December 31, 2017 |
|---|---|---|---|
| Television distribution rights | $ | 665 | 730 |
| Less accumulated amortization | | (558) | (652) |
| Television distribution rights, net | $ | 107 | 78 |

The Company recorded amortization expense of $18 million and $39 million for the three months ended September 30, 2018 and 2017, respectively, related to television distribution rights. For the nine months ended September 30, 2018 and 2017, amortization expense for television distribution rights was $50 million and $141 million, respectively. The decrease in amortization expense for both periods is primarily due to the end of affiliation agreement terms for contracts in place at the time of Qurate Retail's acquisition of QVC in 2003.

As of September 30, 2018, related amortization expense for each of the next five years ended December 31 was as follows (in millions):

| | | |
|---|---|---|
| Remainder of 2018 | $ | 14 |
| 2019 | | 44 |
| 2020 | | 38 |
| 2021 | | 9 |
| 2022 | | 2 |

### (3) Goodwill

The changes in the carrying amount of goodwill for thenine months ended September 30, 2018 were as follows:

| (in millions) | | QVC-U.S. | QVC-Germany | QVC-Japan | QVC-U.K. | QVC-Italy | Total |
|---|---|---|---|---|---|---|---|
| Balance as of December 31, 2017 | $ | 4,190 | 305 | 269 | 176 | 135 | 5,075 |
| Exchange rate fluctuations | | — | (12) | (2) | (6) | (4) | (24) |
| Balance as of September 30, 2018 | $ | 4,190 | 293 | 267 | 170 | 131 | 5,051 |

### (4) Other Intangible Assets, Net

Other intangible assets consisted of the following:

| | | September 30, 2018 | | | December 31, 2017 | | |
|---|---|---|---|---|---|---|---|
| (in millions) | | Gross cost | Accumulated amortization | Other intangible assets, net | Gross cost | Accumulated amortization | Other intangible assets, net |
| Purchased and internally developed software | $ | 758 | (607) | 151 | 710 | (548) | 162 |
| Affiliate and customer relationships | | 2,412 | (2,405) | 7 | 2,419 | (2,409) | 10 |
| Debt origination fees | | 8 | (4) | 4 | 8 | (3) | 5 |
| Trademarks (indefinite life) | | 2,428 | — | 2,428 | 2,428 | — | 2,428 |
| | $ | 5,606 | (3,016) | 2,590 | 5,565 | (2,960) | 2,605 |

The Company recorded amortization expense of $24 million and $52 million for the three months ended September 30, 2018 and 2017, respectively, related to other intangible assets. For the nine months ended September 30, 2018 and 2017, amortization expense for other intangible assets was $69 million and $183 million, respectively. The decrease in amortization expense for each period is primarily due to the end of affiliation agreement terms for contracts in place at the time of Qurate Retail's acquisition of QVC in 2003.

**QVC, Inc.**

**Notes to Condensed Consolidated Financial Statements (continued)**

**(unaudited)**

As of September 30, 2018, the related amortization and interest expense for each of the next five years ended December 31 was as follows (in millions):

| | |
|---|---|
| Remainder of 2018 | $ 25 |
| 2019 | 76 |
| 2020 | 44 |
| 2021 | 17 |
| 2022 | — |

### (5) Accrued Liabilities

Accrued liabilities consisted of the following:

| (in millions) | September 30, 2018 | December 31, 2017 |
|---|---|---|
| Accounts payable non-trade | $ 211 | 279 |
| Allowance for sales returns | 140 | 96 |
| Accrued compensation and benefits | 105 | 119 |
| Income taxes | 67 | 128 |
| Sales and other taxes | 45 | 71 |
| Accrued interest | 38 | 58 |
| Deferred revenue | 13 | 58 |
| Other | 60 | 63 |
| | $ 679 | 872 |

### (6) Long-Term Debt and Capital Lease Obligations

Long-term debt and capital lease obligations consisted of the following:

| (in millions) | September 30, 2018 | December 31, 2017 |
|---|---|---|
| 3.125% Senior Secured Notes due 2019, net of original issue discount | $ 399 | 399 |
| 5.125% Senior Secured Notes due 2022 | 500 | 500 |
| 4.375% Senior Secured Notes due 2023, net of original issue discount | 750 | 750 |
| 4.85% Senior Secured Notes due 2024, net of original issue discount | 600 | 600 |
| 4.45% Senior Secured Notes due 2025, net of original issue discount | 599 | 599 |
| 5.45% Senior Secured Notes due 2034, net of original issue discount | 399 | 399 |
| 5.95% Senior Secured Notes due 2043, net of original issue discount | 300 | 300 |
| 6.375% Senior Secured Notes due 2067 | 225 | — |
| Senior secured credit facility | 675 | 1,496 |
| Capital lease obligations | 182 | 68 |
| Build to suit lease obligation | — | 101 |
| Less debt issuance costs, net | (27) | (22) |
| Total debt and capital lease obligations | 4,602 | 5,190 |
| Less current portion | (419) | (17) |
| Long-term portion of debt and capital lease obligations | $ 4,183 | 5,173 |

**QVC, Inc.**

**Notes to Condensed Consolidated Financial Statements (continued)**

**(unaudited)**

**Senior Secured Notes**

All of QVC's senior secured notes are secured by the capital stock of QVC and certain of its subsidiaries and have equal priority to QVC's senior secured credit facility. With the exception of the notes in the following paragraph, the interest on QVC's senior secured notes is payable semi-annually. At September 30, 2018, the 3.125% Senior Secured Notes due 2019 are classified within current portion of long-term debt as they mature in less than one year from September 30, 2018.

In September 2018, QVC completed a registered debt offering for $225 million of 6.375% Senior Secured Notes due 2067 (the "2067 Notes"). The proceeds were used to partially prepay existing indebtedness under QVC's senior secured credit facility and for general corporate purposes. The costs to complete the financing were deferred and are being amortized to interest expense over the term of the 2067 Notes. Interest on the 2067 Notes will be paid quarterly in March, June, September, and December, commencing on December 15, 2018. QVC has the option to call the 2067 Notes after 5 years at par value.

**Senior Secured Credit Facility**

On June 23, 2016, QVC entered into the Third Amended and Restated Credit Agreement with zulily as borrowers (collectively, the "Borrowers"), which is a multi-currency facility that provides for a $2.65 billion revolving credit facility with a $300 million 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 the Company or zulily with an additional $50 million sub-limit for standby letters of credit (see note 1). The remaining $2.25 billion and any incremental loans may be borrowed only by the Company. Borrowings that are alternate base rate loans will bear interest at a per annum rate equal to the base rate plus a margin that varies between 0.25% and 0.75% depending on the Borrowers' combined ratio of Consolidated Total Debt to Consolidated EBITDA for the most recent four fiscal quarter periods (the "Combined Consolidated Leverage Ratio"). Borrowings that are London Interbank Offered Rate ("LIBOR") loans will bear interest at a per annum rate equal to the applicable LIBOR rate plus a margin that varies between 1.25% and 1.75% depending on the Borrowers' Combined Consolidated Leverage Ratio. Each loan may be prepaid at any time and from time to time without penalty other than customary breakage costs. No mandatory prepayments will be required other than when borrowings and letter of credit usage exceed availability; provided that, if zulily ceases to be controlled by Qurate Retail, all of its loans must be repaid and its letters of credit cash collateralized. 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. Any amounts prepaid on the revolving facility may be reborrowed. Payment of loans may be accelerated following certain customary events of default.

QVC had $1,815 million, including the remaining portion of the $400 million tranche that zulily may also borrow on, available under the terms of the Third Amended and Restated Credit Agreement at September 30, 2018. The interest rate on the Third Amended and Restated Credit Agreement was 3.7% at September 30, 2018.

The payment and performance of the Borrowers' 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. 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 each of zulily's Material Domestic Subsidiaries (as defined in the Third Amended and Restated Credit Agreement), if any, and are 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 the Company and zulily and each of their respective 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; and limiting the Company's consolidated leverage ratio and the Borrowers' Combined Consolidated Leverage Ratio.

**Interest Rate Swap Arrangements**

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 U.S. GAAP. Accordingly, changes in the fair value of the swap are reflected in other expense (income) in the accompanying condensed consolidated statements of operations. At September 30, 2018, the fair value of the swap instrument was in a net asset position of approximately $2 million which was included in prepaid expenses and other current assets.

**Other Debt Related Information**

QVC was in compliance with all of its debt covenants at September 30, 2018.

During the quarter, there were no significant changes to QVC's debt credit ratings.

The weighted average interest rate applicable to all of the outstanding debt (excluding capital leases) prior to amortization of bond discounts and related debt issuance costs was 4.6% as of September 30, 2018.

**(7) Leases**

Future minimum payments under noncancelable operating leases and capital leases with initial terms of one year or more at September 30, 2018 consisted of the following:

| (in millions) | | Capital Leases | Operating leases |
|---|---|---|---|
| Remainder of 2018 | $ | 7 | 6 |
| 2019 | | 27 | 21 |
| 2020 | | 24 | 17 |
| 2021 | | 24 | 11 |
| 2022 | | 22 | 9 |
| Thereafter | | 133 | 72 |
| Total | $ | 237 | 136 |

The Company has entered into fourteen separate capital lease agreements with transponder and transmitter network suppliers to transmit its signals in the U.S., Germany and France at an aggregate monthly cost of $1 million. The Company is also party to a capital lease agreement for data processing hardware. Depreciation expense related to these capital leases was $3 million for each of the three months ended September 30, 2018 and 2017, respectively. For the nine months ended September 30, 2018 and 2017, depreciation expense related to these capital leases was $11 million and $9 million, respectively. Total future minimum capital lease payments of $237 million includes $55 million of imputed interest. The transponder service agreements for our U.S. transponders expire between 2019 and 2023. The transponder and transmitter network service agreements for our international transponders expire between 2019 and 2027.

Expenses for operating leases, principally for data processing equipment, facilities, satellite uplink service agreements and the California distribution center land through August 2018, amounted to $6 million and $5 million for each of the three months ended September 30, 2018 and 2017 and $18 million and $17 million for each of the nine months ended September 30, 2018 and 2017.

On July 2, 2015, QVC entered into a lease (the “Lease”) for a California 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 was 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 had an option to extend the term of the Lease for up to two consecutive terms of 10 years each.

The Company concluded that it was the deemed owner (for accounting purposes only) of the Premises during the construction period under build to suit lease accounting. Upon opening the distribution center, the Company evaluated whether the Lease met the criteria for "sale-leaseback" treatment under U.S. GAAP and concluded that it did not and therefore treated the Lease as a financing obligation and lease payments were 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 August 2018, QVC exercised the right to purchase the Premises and related land from the landlord by entering into an amended and restated agreement ("New Lease"). QVC made an initial payment of $10 million and will make annual payments of $12 million over a term of 13 years. The Company classifies the New Lease within capital lease obligations and lease payments are attributed to: (1) a reduction of the principal obligation and (2) imputed interest expense. In connection with the New Lease, QVC capitalized the related land at fair market value while the building asset is currently being depreciated over its estimated useful life of 20 years.

On October 5, 2018, subsequent to the end of the third quarter of 2018, QVC entered into a lease (“ECDC Lease”) for an East Coast distribution center as part of the QRG Initiatives. The 1.7 million square foot rental building is located in Bethlehem, Pennsylvania and will be leased to QVC for an initial term of 15 years. QVC expects the ECDC Lease to commence in the third quarter of 2019, at which point the discounted value of the ECDC Lease will be recorded as an asset and a liability in the consolidated balance sheets in accordance with ASU No. 2016-02, which will be adopted by the Company on January 1, 2019. Under the ECDC Lease, QVC will be required to pay an initial base rent of approximately $10 million per year, increasing to approximately $14 million per year, as well as all real estate taxes and other building operating costs. QVC also has the option to extend the term of the ECDC Lease for up to two consecutive terms of 5 years each and one final term of 4 years.

## (8) Revenue

Disaggregated revenue by segment and product category consisted of the following:

| | Three months ended September 30, 2018 | | | Nine months ended September 30, 2018 | | |
|---|---|---|---|---|---|---|
| (in millions) | QVC-U.S. | QVC-International | Total | QVC-U.S. | QVC-International | Total |
| Home | $ 497 | 235 | 732 | 1,450 | 730 | 2,180 |
| Apparel | 286 | 113 | 399 | 898 | 348 | 1,246 |
| Beauty | 228 | 148 | 376 | 717 | 450 | 1,167 |
| Accessories | 180 | 64 | 244 | 560 | 203 | 763 |
| Jewelry | 79 | 51 | 130 | 250 | 154 | 404 |
| Electronics | 115 | 26 | 141 | 290 | 74 | 364 |
| Other revenue | 33 | 3 | 36 | 97 | 13 | 110 |
| Total net revenue | $ 1,418 | 640 | 2,058 | 4,262 | 1,972 | 6,234 |

**Consumer Product Revenue and Other Revenue**

QVC's revenue includes sales of consumer products in the following categories; home, apparel, beauty, accessories, electronics and jewelry, which are primarily sold through live merchandise-focused televised shopping programs and via our websites and other interactive media.

Other revenue consists primarily of income generated from our U.S. QVC-branded credit card ("Q-Card") in which a large consumer financial services company provides revolving credit directly to QVC's customers for the sole purpose of purchasing merchandise or services with a Q-Card. In return, the Company receives a portion of the net economics of the credit card program.

**QVC, Inc.**

**Notes to Condensed Consolidated Financial Statements (continued)**

**(unaudited)**

**Revenue Recognition**

For the three and nine months ended September 30, 2018, revenue is recognized when obligations with our customers are satisfied; generally this occurs at the time of shipment to our customers consistent with when control of the shipped product passes. The recognized revenue reflects the consideration we expect to receive in exchange for transferring goods, net of allowances for returns.

The Company generally recognizes revenue related to the Q-Card over time as the Q-Card is used by QVC's customers.

Sales, value add, use and other taxes we collect concurrent with revenue-producing activities are excluded from revenue.

The Company has elected to treat shipping and handling activities that occur after the customer obtains control of the goods as a fulfillment cost and not as a promised good or service. Accordingly, the Company accrues the related shipping costs and recognizes revenue upon delivery of the goods to the shipping carrier. In electing this accounting policy, all shipping and handling activities will be treated as fulfillment costs.

The Company generally has payment terms with its customers of one year or less and has elected the practical expedient applicable to such contracts not to consider the time value of money.

**Significant Judgments**

Our products are generally sold with a right of return and we may provide other credits or incentives, which are accounted for as variable consideration when estimating the amount of revenue to recognize. Returns and credits are estimated at contract inception and updated at the end of each reporting period as additional information becomes available. The Company has determined that it is generally the principal in vendor arrangements as the Company can establish control over the goods prior to shipment. Accordingly, the Company records revenue for these arrangements on a gross basis.

**(9) Income Taxes**

The Company calculates its interim income tax provision by applying its best estimate of the annual expected effective tax rate to its ordinary year-to-date income or loss. The tax or benefit related to significant, unusual or extraordinary items that will be separately reported or reported net of their related tax effect are individually computed and recognized in the interim period in which those items occur.

The computation of the annual estimated effective tax rate at each interim period requires certain estimates and significant judgment including, but not limited to, the expected operating income for the year, projections of the proportion of income earned and taxed in foreign jurisdictions, permanent and temporary differences as a result of differences between amounts measured and recognized in accordance with tax laws and financial accounting standards, and the likelihood of recovering deferred tax assets. The accounting estimates used to compute the provision for income taxes may change as new events occur, additional information is obtained or as the tax environment changes. To the extent that the estimated annual effective tax rate changes during a quarter, the effect of the change on the prior quarters is included in the tax expense for the current quarter.

For the three months ended September 30, 2018 and September 30, 2017, the Company recorded a tax provision of $69 million and $58 million, which represented an effective tax rate of 28.5% and 25.9%, respectively. For the nine months ended September 30, 2018 and September 30, 2017, the Company recorded a tax provision of $224 million and $225 million, which represented an effective tax rate of 26.7% and 33.2%, respectively. The Tax Act, enacted in 2017, made broad and complex changes to the U.S. tax code which included a lowering of the U.S. federal corporate income tax rate from 35% to 21% effective January 1, 2018, changes in how foreign earnings are taxed in the U.S., the limitation on the deduction of net interest expense and other changes. The reduction in the effective tax rate for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 is a result of these changes from the Tax Act. The increase in the effective tax rate for the three months ended September 30, 2018 compared to the three months ended September 30, 2017 is due to the impact of prior year discrete permanent differences related to foreign currency losses realized for tax purposes, partially offset by changes from the Tax Act. The 2018 rate differs from the U.S. federal income tax rate of 21% due primarily to state and foreign tax expenses. The 2017 rate differs from the U.S. federal income tax rate of 35% due primarily to the impact of the aforementioned discrete permanent differences related to foreign currency losses realized for tax purposes offset by state tax expense.

The Company files Federal tax returns on a consolidated basis with its parent company, Qurate Retail. The Company is party to ongoing discussions with the Internal Revenue Service ("IRS") under the Compliance Assurance Process audit program ("CAP"). The Company's tax years through 2014 are closed for federal income tax purposes, and the IRS has completed its examination of the Company's 2015 and 2016 tax years. The Company's 2017 and 2018 tax years are being examined currently as part of Qurate Retail's consolidated return under the IRS CAP program. The Company, or one of its subsidiaries, files income tax returns in various states and foreign jurisdictions. As of September 30, 2018, the Company, or one of its subsidiaries, was under examination in Pennsylvania.

The Company is a party to a Tax Liability Allocation and Indemnification Agreement (the "Tax Agreement") with Qurate Retail. The Tax Agreement establishes the methodology for the calculation and payment of income taxes in connection with the consolidation of the Company with Qurate Retail for income tax purposes. Generally, the Tax Agreement provides that the Company will pay Qurate Retail an amount equal to the tax liability, if any, that it would have if it were to file as a consolidated group separate and apart from Qurate Retail, with exceptions for the treatment and timing of certain items, including but not limited to deferred intercompany transactions, credits, and net operating and capital losses. To the extent that the separate company tax expense is different from the payment terms of the Tax Agreement, the difference is recorded as either a dividend or capital contribution.

The amounts of the tax-related balances due to Qurate Retail at September 30, 2018 and December 31, 2017 were $7 million and $60 million, respectively. These amounts were included in accrued liabilities in the accompanying condensed consolidated balance sheets.

## (10) Commitments and Contingencies

The Company has contingent liabilities related to legal and tax proceedings and other matters arising in the ordinary course of business. Although it is reasonably possible the Company 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 the amounts, if any, which may be required to satisfy such contingencies will not be material in relation to the accompanying condensed consolidated financial statements.

Network and information systems, including the Internet and telecommunication systems, third party delivery services and other technologies are critical to QVC's business activities. Substantially all of QVC's customer orders, fulfillment and delivery services are dependent upon the use of network and information systems, including the use of third party telecommunication and delivery service providers. If information systems including the Internet or telecommunication services are disrupted, or if the third party delivery services experience a disruption in their transportation delivery services, the Company could face a significant disruption in fulfilling QVC's customer orders and shipment of QVC's products. The Company has active disaster recovery programs in place to help mitigate risks associated with these critical business activities.

**(11) Financial Instruments and Fair Value Measurements**

For assets and liabilities required to be reported or disclosed at fair value, U.S. 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's assets and liabilities measured or disclosed at fair value were as follows:

| | Fair value measurements at September 30, 2018 using | | | |
|---|---|---|---|---|
| (in millions) | Total | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| Current assets: | | | | |
| Cash equivalents | $ 163 | 163 | — | — |
| Interest rate swap arrangements | 2 | — | 2 | — |
| Debt (note 6) | 4,341 | 216 | 4,125 | — |

| | Fair value measurements at December 31, 2017 using | | | |
|---|---|---|---|---|
| (in millions) | Total | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| Current assets: | | | | |
| Cash equivalents | $ 42 | 42 | — | — |
| Noncurrent assets: | | | | |
| Interest rate swap arrangements | 2 | — | 2 | — |
| Debt (note 6) | 5,132 | — | 5,132 | — |

The 2067 Notes (ticker: QVCD) are considered Level 1 fair value instruments as reported in the foregoing tables as they are traded on the New York Stock Exchange, which the Company considers to be an "active market," as defined by U.S. GAAP. The remainder of the Company's Level 2 financial liabilities are debt instruments with quoted market prices that are not considered to be traded on "active markets." Accordingly, these financial instruments are reported in the foregoing tables as Level 2 fair value instruments.

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 U.S. GAAP. Accordingly, changes in the fair value of the swap are reflected in other (expense) income in the accompanying condensed consolidated statements of operations. At September 30, 2018, the fair value of the swap instrument was in a net asset position of approximately $2 million, which is included in prepaid expenses and other current assets.

**(12) Information about QVC's Operating Segments**

The Company has identified two reportable operating segments: QVC-U.S. and QVC-International. Both operating segments are retailers of a wide range of consumer products, which are marketed and sold primarily by merchandise-focused televised-shopping programs as well as via the Internet and mobile applications in certain markets.

**QVC, Inc.**

**Notes to Condensed Consolidated Financial Statements (continued)**

**(unaudited)**

QVC's chief operating decision maker ("CODM") is QVC's Chief Executive Officer. QVC's CODM has ultimate responsibility for enterprise decisions. QVC's CODM determines, in particular, resource allocation for, and monitors performance of, the consolidated enterprise, QVC-U.S. and QVC-International. The segment managers have responsibility for operating decisions, allocating resources and assessing performance within their respective segments. QVC's CODM relies on internal management reporting that analyzes enterprise results and segment results to the Adjusted OIBDA level (see below).

The Company evaluates performance and makes decisions about allocating resources to its operating segments based on financial measures such as net revenue, Adjusted OIBDA, gross margin, average sales price per unit, number of units shipped and revenue or sales per subscriber equivalent. The Company defines Adjusted OIBDA as revenue less cost of goods sold, operating expenses, and selling, general and administrative expenses (excluding restructuring, integration and advisory fees incurred by QVC as a result of the acquisition of HSN by Qurate Retail on December 29, 2017 ("transaction related costs") and stock-based compensation). The Company believes this measure is an important indicator of the operational strength and performance of its segments, including the ability to service debt and fund capital expenditures. In addition, this measure allows management to view operating results and perform analytical comparisons and benchmarking among the Company's businesses and identify strategies to improve performance. This measure of performance excludes depreciation, amortization, stock-based compensation and transaction related costs that are included in the measurement of operating income pursuant to U.S. 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 U.S. GAAP.

**Performance measures**

| | Three months ended September 30, | | | | Nine months ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2017 | | 2018 | | 2017 | |
| (in millions) | Net revenue | Adjusted OIBDA | Net revenue | Adjusted OIBDA | Net revenue | Adjusted OIBDA | Net revenue | Adjusted OIBDA |
| QVC-U.S. | $ 1,418 | 324 | 1,374 | 316 | 4,262 | 1,005 | 4,111 | 1,013 |
| QVC-International | 640 | 93 | 636 | 99 | 1,972 | 300 | 1,843 | 304 |
| Consolidated QVC | $ 2,058 | 417 | 2,010 | 415 | 6,234 | 1,305 | 5,954 | 1,317 |

**Other information**

| | Three months ended September 30, | | | | Nine months ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2017 | | 2018 | | 2017 | |
| (in millions) | Depreciation | Amortization | Depreciation | Amortization | Depreciation | Amortization | Depreciation | Amortization |
| QVC-U.S. | $ 22 | 40 | 24 | 83 | 68 | 111 | 70 | 293 |
| QVC-International | 14 | 2 | 14 | 8 | 42 | 8 | 46 | 31 |
| Consolidated QVC | $ 36 | 42 | 38 | 91 | 110 | 119 | 116 | 324 |

| | September 30, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| (in millions) | Total assets | Capital expenditures | Total assets | Capital expenditures |
| QVC-U.S. | $ 9,284 | 83 | 9,429 | 116 |
| QVC-International | 2,136 | 42 | 2,121 | 36 |
| Consolidated QVC | $ 11,420 | 125 | 11,550 | 152 |

**QVC, Inc.**

**Notes to Condensed Consolidated Financial Statements (continued)**

**(unaudited)**

Property and equipment, net of accumulated depreciation, by segment were as follows:

| (in millions) | September 30, 2018 | December 31, 2017 |
|---|---|---|
| QVC-U.S. | $ 538 | 559 |
| QVC-International | 443 | 446 |
| Consolidated QVC | $ 981 | 1,005 |

The following table provides a reconciliation of Adjusted OIBDA to income before income taxes:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| (in millions) | 2018 | 2017 | 2018 | 2017 |
| Adjusted OIBDA | $ 417 | 415 | 1,305 | 1,317 |
| Transaction related costs | (28) | (3) | (32) | (3) |
| Stock-based compensation | (10) | (9) | (30) | (23) |
| Depreciation and amortization | (78) | (129) | (229) | (440) |
| Equity in losses of investee | (1) | — | (2) | (3) |
| Interest expense, net | (57) | (54) | (172) | (165) |
| Foreign currency (loss) gain | (1) | 4 | — | (6) |
| Income before income taxes | $ 242 | 224 | 840 | 677 |

**QVC, Inc.**

**Notes to Condensed Consolidated Financial Statements (continued)**

**(unaudited)**

**(13) Other Comprehensive (Loss) Income**

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

| (in millions) | Foreign currency translation adjustments | AOCL |
|---|---|---|
| Balance at January 1, 2018 | $ (93) | (93) |
| Other comprehensive loss attributable to QVC, Inc. stockholder | (47) | (47) |
| Balance at September 30, 2018 | (140) | (140) |
| | | |
| Balance at January 1, 2017 | $ (224) | (224) |
| Other comprehensive income attributable to QVC, Inc. stockholder | 106 | 106 |
| Balance at September 30, 2017 | (118) | (118) |

The component of other comprehensive (loss) income is reflected in QVC's condensed consolidated statements of comprehensive income, net of taxes. The following table summarizes the tax effects related to the component of other comprehensive (loss) income:

| (in millions) | Before-tax amount | Tax (expense) benefit | Net-of-tax amount |
|---|---|---|---|
| *Three months ended September 30, 2018* | | | |
| Foreign currency translation adjustments | $ (21) | (1) | (22) |
| Other comprehensive loss | (21) | (1) | (22) |
| | | | |
| *Three months ended September 30, 2017* | | | |
| Foreign currency translation adjustments | $ 33 | (5) | 28 |
| Other comprehensive income | 33 | (5) | 28 |
| | | | |
| *Nine months ended September 30, 2018:* | | | |
| Foreign currency translation adjustments | $ (47) | (1) | (48) |
| Other comprehensive loss | (47) | (1) | (48) |
| | | | |
| *Nine months ended September 30, 2017:* | | | |
| Foreign currency translation adjustments | $ 135 | (25) | 110 |
| Other comprehensive income | 135 | (25) | 110 |

**(14) Subsequent Event**

Other than those events disclosed in note 7, there were no other events that occurred subsequent to September 30, 2018, but prior to November 9, 2018, that had a material impact on the Company's consolidated financial statements.

**QVC, Inc.**

**Notes to Condensed Consolidated Financial Statements (continued)**

**(unaudited)**

**(15) Guarantor/Non-guarantor Subsidiary Financial Information**

The following information contains the condensed consolidating financial statements for the Company, the parent on a stand-alone basis (QVC, Inc.), the combined subsidiary guarantors (Affiliate Relations Holdings, Inc.; Affiliate Investment, Inc.; AMI 2, Inc.; ER Marks, Inc.; QVC Rocky Mount, Inc.; QVC San Antonio, LLC; QVC Global Holdings I, Inc.; and QVC Global Holdings II, Inc.) and the combined non-guarantor subsidiaries pursuant to Rule 3-10 of Regulation S-X.

In connection with the Third Amended and Restated Credit Agreement in June 2016 (see notes 1 and 6), QVC International Ltd is no longer a guarantor subsidiary, and is reflected with the combined non-guarantor subsidiaries.

These condensed consolidating financial statements have been prepared from the Company's financial information on the same basis of accounting as the Company's condensed consolidated financial statements. The principal elimination entries relate to investments in subsidiaries and intercompany balances and transactions, such as management fees, royalty revenue and expense, interest income and expense and gains on intercompany asset transfers. Goodwill and other intangible assets have been allocated to the subsidiaries based on management’s estimates. Certain costs have been partially allocated to all of the subsidiaries of the Company.

The subsidiary guarantors are 100% owned by the Company. All guarantees are full and unconditional and are joint and several. There are no significant restrictions on the ability of the Company to obtain funds from its U.S. subsidiaries, including the guarantors, by dividend or loan. The Company has not presented separate notes and other disclosures concerning the subsidiary guarantors as the Company has determined that such material information is available in the notes to the Company's condensed consolidated financial statements.

**QVC, Inc.**

**Notes to Condensed Consolidated Financial Statements (continued)**

**(unaudited)**

**Condensed Consolidating Balance Sheets**

| | | | | | September 30, 2018 |
|---|---|---|---|---|---|
| (in millions) | Parent issuer- QVC, Inc. | Combined subsidiary guarantors | Combined non-guarantor subsidiaries | Eliminations | Consolidated- QVC, Inc. and subsidiaries |
| **Assets** | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $ 45 | 90 | 253 | — | 388 |
| Restricted cash | 5 | — | 2 | — | 7 |
| Accounts receivable, net | 686 | — | 265 | — | 951 |
| Inventories | 870 | — | 303 | — | 1,173 |
| Prepaid expenses and other current assets | 62 | — | 52 | — | 114 |
| Total current assets | 1,668 | 90 | 875 | — | 2,633 |
| Property and equipment, net | 269 | 56 | 656 | — | 981 |
| Television distribution rights, net | — | 106 | 1 | — | 107 |
| Goodwill | 4,190 | — | 861 | — | 5,051 |
| Other intangible assets, net | 523 | 2,048 | 19 | — | 2,590 |
| Other noncurrent assets | 10 | — | 48 | — | 58 |
| Investments in subsidiaries | 3,689 | 1,650 | — | (5,339) | — |
| Total assets | $ 10,349 | 3,950 | 2,460 | (5,339) | 11,420 |
| **Liabilities and equity** | | | | | |
| Current liabilities: | | | | | |
| Current portion of debt and capital lease obligations | $ 403 | — | 16 | — | 419 |
| Accounts payable-trade | 515 | — | 269 | — | 784 |
| Accrued liabilities | 148 | 218 | 313 | — | 679 |
| Intercompany accounts payable (receivable) | 438 | (1,529) | 1,091 | — | — |
| Total current liabilities | 1,504 | (1,311) | 1,689 | — | 1,882 |
| Long-term portion of debt and capital lease obligations | 4,030 | — | 153 | — | 4,183 |
| Deferred income taxes | 58 | 459 | (53) | — | 464 |
| Other long-term liabilities | 121 | — | 15 | — | 136 |
| Total liabilities | 5,713 | (852) | 1,804 | — | 6,665 |
| Equity: | | | | | |
| QVC, Inc. stockholder's equity | 4,636 | 4,802 | 537 | (5,339) | 4,636 |
| Noncontrolling interest | — | — | 119 | — | 119 |
| Total equity | 4,636 | 4,802 | 656 | (5,339) | 4,755 |
| Total liabilities and equity | $ 10,349 | 3,950 | 2,460 | (5,339) | 11,420 |

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**Condensed Consolidating Balance Sheets**

| | | | | | December 31, 2017 |
|---|---|---|---|---|---|
| (in millions) | Parent issuer- QVC, Inc. | Combined subsidiary guarantors | Combined non-guarantor subsidiaries | Eliminations | Consolidated- QVC, Inc. and subsidiaries |
| **Assets** | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $ 2 | 33 | 225 | — | 260 |
| Restricted cash | 5 | — | 3 | — | 8 |
| Accounts receivable, net | 1,076 | — | 312 | — | 1,388 |
| Inventories | 758 | — | 261 | — | 1,019 |
| Prepaid expenses and other current assets | 28 | — | 23 | — | 51 |
| Total current assets | 1,869 | 33 | 824 | — | 2,726 |
| Property and equipment, net | 295 | 60 | 650 | — | 1,005 |
| Television distribution rights, net | — | 78 | — | — | 78 |
| Goodwill | 4,190 | — | 885 | — | 5,075 |
| Other intangible assets, net | 539 | 2,048 | 18 | — | 2,605 |
| Other noncurrent assets | 14 | — | 47 | — | 61 |
| Investments in subsidiaries | 3,579 | 1,626 | — | (5,205) | — |
| Total assets | $ 10,486 | 3,845 | 2,424 | (5,205) | 11,550 |
| **Liabilities and equity** | | | | | |
| Current liabilities: | | | | | |
| Current portion of debt and capital lease obligations | $ 3 | — | 14 | — | 17 |
| Accounts payable-trade | 455 | — | 301 | — | 756 |
| Accrued liabilities | 366 | 227 | 279 | — | 872 |
| Intercompany accounts payable (receivable) | 453 | (1,513) | 1,060 | — | — |
| Total current liabilities | 1,277 | (1,286) | 1,654 | — | 1,645 |
| Long-term portion of debt and capital lease obligations | 5,033 | — | 140 | — | 5,173 |
| Deferred income taxes | 52 | 468 | (47) | — | 473 |
| Other long-term liabilities | 92 | — | 25 | — | 117 |
| Total liabilities | 6,454 | (818) | 1,772 | — | 7,408 |
| Equity: | | | | | |
| QVC, Inc. stockholder's equity | 4,032 | 4,663 | 542 | (5,205) | 4,032 |
| Noncontrolling interest | — | — | 110 | — | 110 |
| Total equity | 4,032 | 4,663 | 652 | (5,205) | 4,142 |
| Total liabilities and equity | $ 10,486 | 3,845 | 2,424 | (5,205) | 11,550 |

**QVC, Inc.**

**Notes to Condensed Consolidated Financial Statements (continued)**

**(unaudited)**

**Condensed Consolidating Statements of Operations**

| | Three months ended September 30, 2018 | | | | |
|---|---|---|---|---|---|
| (in millions) | Parent issuer- QVC, Inc. | Combined subsidiary guarantors | Combined non-guarantor subsidiaries | Eliminations | Consolidated- QVC, Inc. and subsidiaries |
| Net revenue | $ 1,459 | 231 | 701 | (333) | 2,058 |
| Operating costs and expenses: | | | | | |
| Cost of goods sold (exclusive of depreciation and amortization shown separately below) | 879 | 36 | 431 | (46) | 1,300 |
| Operating | 109 | 68 | 70 | (103) | 144 |
| Selling, general and administrative, including transaction related costs and stock-based compensation | 303 | — | 116 | (184) | 235 |
| Depreciation | 16 | 2 | 18 | — | 36 |
| Amortization | 21 | 18 | 3 | — | 42 |
| | 1,328 | 124 | 638 | (333) | 1,757 |
| Operating income | 131 | 107 | 63 | — | 301 |
| Other (expense) income: | | | | | |
| Equity in losses of investee | — | — | (1) | — | (1) |
| Interest (expense) income, net | (57) | 1 | (1) | — | (57) |
| Foreign currency loss | — | — | (1) | — | (1) |
| Intercompany interest (expense) income | (8) | 38 | (30) | — | — |
| | (65) | 39 | (33) | — | (59) |
| Income before income taxes | 66 | 146 | 30 | — | 242 |
| Income tax expense | (27) | (29) | (13) | — | (69) |
| Equity in earnings of subsidiaries, net of tax | 134 | 4 | — | (138) | — |
| Net income | 173 | 121 | 17 | (138) | 173 |
| Less net income attributable to the noncontrolling interest | (11) | — | (11) | 11 | (11) |
| Net income attributable to QVC, Inc. stockholder | $ 162 | 121 | 6 | (127) | 162 |

**QVC, Inc.**

**Notes to Condensed Consolidated Financial Statements (continued)**

**(unaudited)**

**Condensed Consolidating Statements of Operations**

| | | | | | Three months ended September 30, 2017 |
|---|---|---|---|---|---|
| **(in millions)** | **Parent issuer-QVC, Inc.** | **Combined subsidiary guarantors** | **Combined non-guarantor subsidiaries** | **Eliminations** | **Consolidated-QVC, Inc. and subsidiaries** |
| Net revenue | $ 1,419 | 234 | 688 | (331) | 2,010 |
| Operating costs and expenses: | | | | | |
| Cost of goods sold (exclusive of depreciation and amortization shown separately below) | 864 | 37 | 422 | (41) | 1,282 |
| Operating | 106 | 64 | 70 | (95) | 145 |
| Selling, general and administrative, including transaction related costs and stock-based compensation | 262 | — | 113 | (195) | 180 |
| Depreciation | 17 | 2 | 19 | — | 38 |
| Amortization | 47 | 35 | 9 | — | 91 |
| | 1,296 | 138 | 633 | (331) | 1,736 |
| Operating income | 123 | 96 | 55 | — | 274 |
| Other (expense) income: | | | | | |
| Equity in losses of investee | — | — | — | — | — |
| Interest expense, net | (54) | — | — | — | (54) |
| Foreign currency (loss) gain | (1) | 1 | 4 | — | 4 |
| Intercompany interest (expense) income | (1) | 23 | (22) | — | — |
| | (56) | 24 | (18) | — | (50) |
| Income before income taxes | 67 | 120 | 37 | — | 224 |
| Income tax expense | (13) | (24) | (21) | — | (58) |
| Equity in earnings of subsidiaries, net of tax | 112 | 19 | — | (131) | — |
| Net income | 166 | 115 | 16 | (131) | 166 |
| Less net income attributable to the noncontrolling interest | (12) | — | (12) | 12 | (12) |
| Net income attributable to QVC, Inc. stockholder | $ 154 | 115 | 4 | (119) | 154 |

**QVC, Inc.**

**Notes to Condensed Consolidated Financial Statements (continued)**

**(unaudited)**

**Condensed Consolidating Statements of Operations**

| | Nine months ended September 30, 2018 | | | | |
|---|---|---|---|---|---|
| (in millions) | Parent issuer- QVC, Inc. | Combined subsidiary guarantors | Combined non-guarantor subsidiaries | Eliminations | Consolidated- QVC, Inc. and subsidiaries |
| Net revenue | $ 4,374 | 672 | 2,133 | (945) | 6,234 |
| Operating costs and expenses: | | | | | |
| Cost of goods sold (exclusive of depreciation and amortization shown separately below) | 2,615 | 103 | 1,311 | (123) | 3,906 |
| Operating | 308 | 184 | 214 | (273) | 433 |
| Selling, general and administrative, including transaction related costs and stock-based compensation | 855 | 1 | 345 | (549) | 652 |
| Depreciation | 49 | 7 | 54 | — | 110 |
| Amortization | 60 | 51 | 8 | — | 119 |
| | 3,887 | 346 | 1,932 | (945) | 5,220 |
| Operating income | 487 | 326 | 201 | — | 1,014 |
| Other (expense) income: | | | | | |
| Equity in losses of investee | — | — | (2) | — | (2) |
| Interest (expense) income, net | (171) | 2 | (3) | — | (172) |
| Foreign currency gain (loss) | 2 | — | (2) | — | — |
| Intercompany interest (expense) income | (23) | 114 | (91) | — | — |
| | (192) | 116 | (98) | — | (174) |
| Income before income taxes | 295 | 442 | 103 | — | 840 |
| Income tax expense | (87) | (88) | (49) | — | (224) |
| Equity in earnings of subsidiaries, net of tax | 408 | 38 | — | (446) | — |
| Net income | 616 | 392 | 54 | (446) | 616 |
| Less net income attributable to the noncontrolling interest | (33) | — | (33) | 33 | (33) |
| Net income attributable to QVC, Inc. stockholder | $ 583 | 392 | 21 | (413) | 583 |

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**Condensed Consolidating Statements of Operations**

| | Nine months ended September 30, 2017 | | | | |
|---|---|---|---|---|---|
| (in millions) | Parent issuer- QVC, Inc. | Combined subsidiary guarantors | Combined non-guarantor subsidiaries | Eliminations | Consolidated- QVC, Inc. and subsidiaries |
| Net revenue | $ 4,225 | 679 | 1,992 | (942) | 5,954 |
| Operating costs and expenses: | | | | | |
| Cost of goods sold (exclusive of depreciation and amortization shown separately below) | 2,557 | 106 | 1,210 | (118) | 3,755 |
| Operating | 301 | 182 | 204 | (268) | 419 |
| Selling, general and administrative, including transaction related costs and stock-based compensation | 743 | — | 302 | (556) | 489 |
| Depreciation | 50 | 6 | 60 | — | 116 |
| Amortization | 167 | 125 | 32 | — | 324 |
| | 3,818 | 419 | 1,808 | (942) | 5,103 |
| Operating income | 407 | 260 | 184 | — | 851 |
| Other (expense) income: | | | | | |
| Equity in losses of investee | — | — | (3) | — | (3) |
| Interest expense, net | (163) | — | (2) | — | (165) |
| Foreign currency (loss) gain | (4) | 1 | (3) | — | (6) |
| Intercompany interest (expense) income | (3) | 68 | (65) | — | — |
| | (170) | 69 | (73) | — | (174) |
| Income before income taxes | 237 | 329 | 111 | — | 677 |
| Income tax expense | (84) | (86) | (55) | — | (225) |
| Equity in earnings of subsidiaries, net of tax | 299 | 34 | — | (333) | — |
| Net income | 452 | 277 | 56 | (333) | 452 |
| Less net income attributable to the noncontrolling interest | (33) | — | (33) | 33 | (33) |
| Net income attributable to QVC, Inc. stockholder | $ 419 | 277 | 23 | (300) | 419 |

**QVC, Inc.**

**Notes to Condensed Consolidated Financial Statements (continued)**

**(unaudited)**

**Condensed Consolidating Statements of Comprehensive Income**

| | Three months ended September 30, 2018 | | | | |
|---|---|---|---|---|---|
| (in millions) | Parent issuer- QVC, Inc. | Combined subsidiary guarantors | Combined non-guarantor subsidiaries | Eliminations | Consolidated- QVC, Inc. and subsidiaries |
| Net income | $ 173 | 121 | 17 | (138) | 173 |
| Foreign currency translation adjustments, net of tax | (22) | — | (22) | 22 | (22) |
| Total comprehensive income | 151 | 121 | (5) | (116) | 151 |
| Comprehensive income attributable to noncontrolling interest | (8) | — | (8) | 8 | (8) |
| Comprehensive income attributable to QVC, Inc. stockholder | $ 143 | 121 | (13) | (108) | 143 |

**Condensed Consolidating Statements of Comprehensive Income**

| | Three months ended September 30, 2017 | | | | |
|---|---|---|---|---|---|
| (in millions) | Parent issuer- QVC, Inc. | Combined subsidiary guarantors | Combined non-guarantor subsidiaries | Eliminations | Consolidated- QVC, Inc. and subsidiaries |
| Net income | $ 166 | 115 | 16 | (131) | 166 |
| Foreign currency translation adjustments, net of tax | 28 | — | 28 | (28) | 28 |
| Total comprehensive income | 194 | 115 | 44 | (159) | 194 |
| Comprehensive income attributable to noncontrolling interest | (12) | — | (12) | 12 | (12) |
| Comprehensive income attributable to QVC, Inc. stockholder | $ 182 | 115 | 32 | (147) | 182 |

**QVC, Inc.**

**Notes to Condensed Consolidated Financial Statements (continued)**

**(unaudited)**

**Condensed Consolidating Statements of Comprehensive Income**

| | Nine months ended September 30, 2018 | | | | |
|---|---|---|---|---|---|
| (in millions) | Parent issuer-QVC, Inc. | Combined subsidiary guarantors | Combined non-guarantor subsidiaries | Eliminations | Consolidated-QVC, Inc. and subsidiaries |
| Net income | $ 616 | 392 | 54 | (446) | 616 |
| Foreign currency translation adjustments, net of tax | (48) | — | (48) | 48 | (48) |
| Total comprehensive income | 568 | 392 | 6 | (398) | 568 |
| Comprehensive income attributable to noncontrolling interest | (32) | — | (32) | 32 | (32) |
| Comprehensive income attributable to QVC, Inc. stockholder | $ 536 | 392 | (26) | (366) | 536 |

**Condensed Consolidating Statements of Comprehensive Income**

| | Nine months ended September 30, 2017 | | | | |
|---|---|---|---|---|---|
| (in millions) | Parent issuer-QVC, Inc. | Combined subsidiary guarantors | Combined non-guarantor subsidiaries | Eliminations | Consolidated-QVC, Inc. and subsidiaries |
| Net income | $ 452 | 277 | 56 | (333) | 452 |
| Foreign currency translation adjustments, net of tax | 110 | — | 110 | (110) | 110 |
| Total comprehensive income | 562 | 277 | 166 | (443) | 562 |
| Comprehensive income attributable to noncontrolling interest | (37) | — | (37) | 37 | (37) |
| Comprehensive income attributable to QVC, Inc. stockholder | $ 525 | 277 | 129 | (406) | 525 |

**QVC, Inc.**

**Notes to Condensed Consolidated Financial Statements (continued)**

**(unaudited)**

**Condensed Consolidating Statements of Cash Flows**

| | Nine months ended September 30, 2018 | | | | |
|---|---|---|---|---|---|
| (in millions) | Parent issuer- QVC, Inc. | Combined subsidiary guarantors | Combined non-guarantor subsidiaries | Eliminations | Consolidated- QVC, Inc. and subsidiaries |
| Operating activities: | | | | | |
| Net cash provided by operating activities | $ 484 | 394 | 62 | — | 940 |
| Investing activities: | | | | | |
| Capital expenditures | (68) | (3) | (54) | — | (125) |
| Expenditures for television distribution rights | — | (79) | (1) | — | (80) |
| Changes in other noncurrent assets | 2 | — | (1) | — | 1 |
| Intercompany investing activities | 233 | (552) | — | 319 | — |
| Net cash provided by (used in) investing activities | 167 | (634) | (56) | 319 | (204) |
| Financing activities: | | | | | |
| Principal payments of debt and capital lease obligations | (2,277) | — | (8) | — | (2,285) |
| Principal borrowings of debt from senior secured credit facility | 1,451 | — | — | — | 1,451 |
| Proceeds from issuance of senior secured notes | 225 | — | — | — | 225 |
| Payment of debt origination fees | (8) | — | — | — | (8) |
| Capital contributions received from Qurate Retail, Inc. | 340 | — | — | — | 340 |
| Dividends paid to Qurate Retail, Inc. | (297) | — | — | — | (297) |
| Dividends paid to noncontrolling interest | — | — | (23) | — | (23) |
| Other financing activities | (10) | — | — | — | (10) |
| Net short-term intercompany debt (repayments) borrowings | (15) | (16) | 31 | — | — |
| Other intercompany financing activities | (17) | 313 | 23 | (319) | — |
| Net cash (used in) provided by financing activities | (608) | 297 | 23 | (319) | (607) |
| Effect of foreign exchange rate changes on cash, cash equivalents and restricted cash | — | — | (2) | — | (2) |
| Net increase in cash, cash equivalents and restricted cash | 43 | 57 | 27 | — | 127 |
| Cash, cash equivalents and restricted cash, beginning of period | 7 | 33 | 228 | — | 268 |
| Cash, cash equivalents and restricted cash, end of period | $ 50 | 90 | 255 | — | 395 |

**QVC, Inc.**

**Notes to Condensed Consolidated Financial Statements (continued)**

**(unaudited)**

**Condensed Consolidating Statements of Cash Flows**

| | Nine months ended September 30, 2017 | | | | |
|---|---|---|---|---|---|
| (in millions) | Parent issuer- QVC, Inc. | Combined subsidiary guarantors | Combined non-guarantor subsidiaries | Eliminations | Consolidated- QVC, Inc. and subsidiaries |
| Operating activities: | | | | | |
| Net cash provided by operating activities | $ 550 | 306 | 51 | — | 907 |
| Investing activities: | | | | | |
| Capital expenditures | (54) | (2) | (27) | — | (83) |
| Expenditures for television distribution rights | — | (35) | — | — | (35) |
| Changes in other noncurrent assets | (1) | — | (1) | — | (2) |
| Intercompany investing activities | 385 | (1,087) | — | 702 | — |
| Net cash provided by (used in) investing activities | 330 | (1,124) | (28) | 702 | (120) |
| Financing activities: | | | | | |
| Principal payments of debt and capital lease obligations | (1,785) | — | (6) | — | (1,791) |
| Principal borrowings of debt from senior secured credit facility | 1,574 | — | — | — | 1,574 |
| Dividends paid to Qurate Retail, Inc. | (491) | — | — | — | (491) |
| Dividends paid to noncontrolling interest | — | — | (22) | — | (22) |
| Other financing activities | (10) | — | — | — | (10) |
| Net short-term intercompany debt (repayments) borrowings | (353) | (1,188) | 1,541 | — | — |
| Other intercompany financing activities | 186 | 1,959 | (1,443) | (702) | — |
| Net cash (used in) provided by financing activities | (879) | 771 | 70 | (702) | (740) |
| Effect of foreign exchange rate changes on cash, cash equivalents and restricted cash | — | — | 13 | — | 13 |
| Net (decrease) increase in cash, cash equivalents and restricted cash | 1 | (47) | 106 | — | 60 |
| Cash, cash equivalents and restricted cash, beginning of period | 10 | 97 | 187 | — | 294 |
| Cash, cash equivalents and restricted cash, end of period | $ 11 | 50 | 293 | — | 354 |

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

Certain statements in this Quarterly Report on Form 10-Q constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding our business, product and marketing strategies and initiatives; revenue growth; our projected sources and uses of cash; the anticipated impact of certain contingent liabilities related to legal and tax proceedings; the impact of interest rate and foreign currency exchange rate fluctuations and other matters arising in the ordinary course of business. 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 on our 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 United Kingdom ("U.K.") to exit from the European Union (“E.U.”);
- 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;
- failure to protect the security of personal information, subjecting us to potentially costly government enforcement actions and/or private litigation and reputational damage;
- the regulatory and competitive environment of the industries in which we operate;
- threatened terrorist attacks, political unrest in international markets and ongoing military action around the world;

- fluctuations in foreign currency exchange rates; and
- Qurate Retail, Inc.'s ("Qurate Retail") (formerly known as Liberty Interactive Corporation) dependence on our cash flow for servicing its debt and for other purposes.

For additional risk factors, please see Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2017. These forward-looking statements and such risks, uncertainties and other factors speak only as of the date of this Quarterly Report on Form 10-Q, 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.

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 condensed consolidated financial statements and the notes thereto and our Annual Report on Form 10-K for the year ended December 31, 2017.

***Overview***

QVC, Inc. (unless otherwise indicated or required by the context, the terms "we," "our," "us," the "Company" and "QVC" refer to QVC, Inc. and its consolidated subsidiaries) 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 United States ("U.S."), our 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. Our U.S. programming is also available on QVC.com, our U.S. website; mobile applications via streaming video; over-the-air broadcasters; and over-the-top content platforms (Roku, Apple TV, Facebook, etc.).

We believe that our digital platforms complement our televised shopping programs by allowing consumers to purchase a wide assortment of goods offered on our televised programs, as well as other products that are available only on our digital platforms. We view e-commerce as a natural extension of our business, allowing us to stream live video and offer on-demand video segments of items recently presented live on our televised programs. Our digital platforms allow shoppers to browse, research, compare and perform targeted searches for products, control the order-entry process and conveniently access their QVC account.

Our 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. In some of the countries where we operate, our televised shopping programs are broadcast across multiple QVC channels: QVC Beauty & Style and QVC2 in Germany and QVC Beauty, QVC Extra and QVC Style in the U.K. The programming created for most of these markets is also available via streaming video on our digital platforms. Our international business employs product sourcing teams who select products tailored to the interests of each local market.

The Company's Japanese operations ("QVC-Japan") are conducted through a joint venture with Mitsui & Co., LTD ("Mitsui"). QVC-Japan is owned 60% by the Company and 40% by Mitsui. The Company and Mitsui share in all profits and losses based on their respective ownership interests. During the nine months ended September 30, 2018 and 2017, QVC-Japan paid dividends to Mitsui of $23 million and $22 million, respectively.

The Company 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"). The Company 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. This joint venture is accounted for as an equity method investment recorded as equity in losses of investee in the condensed consolidated statements of operations.

The Company is an indirect wholly-owned subsidiary of Qurate Retail, (Nasdaq: QRTEA and QRTEB), which owns interests in a broad range of digital commerce businesses, including Qurate Retail's other wholly-owned subsidiaries HSN, Inc. ("HSN") and zulily, llc ("zulily"), as well as other minority investments. QVC is part of the Qurate Retail Group ("QRG"), formerly QVC Group, a portfolio of brands including QVC, HSN, zulily and the Cornerstone brands. On March 9, 2018, Qurate Retail, GCI Liberty, Inc. ("GCI Liberty") (formerly General Communication, Inc.), an Alaska corporation, and Liberty Interactive LLC, a Delaware limited liability company and a direct wholly-owned subsidiary of Qurate Retail completed transactions whereby Qurate Retail acquired GCI Liberty through a reorganization in which certain assets and liabilities attributed to Qurate Retail's Ventures Group were contributed to GCI Liberty in exchange for a controlling interest in GCI Liberty. Qurate Retail then effected a tax-free separation of its controlling interest in the combined company. Qurate Retail's QVC Group common stock became the only outstanding common stock of Qurate Retail.

On October 1, 2015, Qurate Retail acquired all of the outstanding shares of 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 each day for a limited time period. The Company believes that its business is complementary to the Company. zulily is not part of the results of operations or financial position of QVC presented in the accompanying condensed consolidated financial statements. During each of the nine months ended September 30, 2018 and 2017, QVC and zulily engaged in multiple transactions relating to personnel, sales, sourcing of merchandise, marketing initiatives and business advisory services. The gross value of these transactions totaled approximately $8 million and $7 million for the nine months ended September 30, 2018 and 2017, respectively, which did not have a material impact on QVC's financial position, results of operations, or liquidity.

On June 23, 2016, QVC amended and restated its senior secured credit facility (the "Third Amended and Restated Credit Agreement") increasing the revolving credit facility from $2.25 billion to $2.65 billion as explained further in note 6 to the Company's condensed consolidated financial statements. TheThird Amended and Restated Credit Agreement includes a $400 million tranche that may be borrowed by QVC or zulily. Under the terms of theThird Amended and Restated Credit Agreement, QVC and zulily are jointly and severally liable for all amounts borrowed on the $400 million tranche. In accordance with the accounting guidance for obligations resulting from joint and several liability arrangements, QVC will record a liability for amounts it has borrowed under the credit facility plus any additional amount it expects to repay on behalf of zulily. As of September 30, 2018, there was $150 million borrowed by zulily on the $400 million tranche of the Third Amended and Restated Credit Agreement.

On December 29, 2017, Qurate Retail completed the acquisition of the remaining62% ownership interest of HSN in an all-stock transaction. HSN is not included in the results of operations or financial position of QVC presented in the Company's condensed consolidated financial statements. During the nine months ended September 30, 2018, QVC and HSN engaged in transactions relating to personnel, sales, sourcing of merchandise, marketing initiatives, business advisory services, and software development. The gross value of these transactions totaled $28 million, which did not have a material impact on QVC's financial position, results of operations, or liquidity.

On October 17, 2018, QRG announced a series of initiatives designed to better position its HSN and QVC- U.S. businesses (“QRG Initiatives”). As part of the QRG Initiatives, QVC will close its fulfillment center in Lancaster, Pennsylvania and has entered into an agreement to lease a new fulfillment center in Bethlehem, Pennsylvania, commencing in 2019. QVC recorded severance expense of $28 million during the third quarter of 2018, which primarily related to the closure of the Lancaster fulfillment center.

***Strategies and challenges of business units***

QVC's goal 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. QVC's objective is to provide an integrated shopping experience that utilizes all forms of media including television, the Internet and mobile devices. QVC intends 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 brand; (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.

QVC's future net revenue growth will primarily depend on sales growth from e-commerce and mobile platforms, additions of new customers from households already receiving QVC's television programming and increased spending from existing customers. QVC's future net revenue may also be affected by (i) the willingness of cable television and direct-to-home satellite system operators to continue carrying QVC's programming service; (ii) QVC's 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.

Economic uncertainty in various regions of the world in which our subsidiaries and affiliates operate could adversely affect demand for our products and services since a substantial portion of our revenue is derived from discretionary spending by individuals, which typically falls during times of economic instability. Global financial markets have recently experienced disruptions, including increased volatility and diminished liquidity and credit availability. If economic and financial market conditions in the U.S. or other key markets, including Japan and Europe, become uncertain or deteriorate, our 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 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 our expansion into European or other markets. We currently are unable to predict the extent of any of these potential adverse effects.

On June 23, 2016, the U.K. held a referendum in which British citizens approved an exit from the E.U., 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 E.U. In the longer term, any impact from Brexit on us 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 our operations and financial results. On March 29, 2017, the U.K. invoked Article 50 of the Treaty of Lisbon, which is the first step of the U.K.’s formal exit from the E.U. This started the two-year window in which the U.K. and the European Commission can negotiate future terms for imports, exports, taxes, employment, immigration and other areas, ending in the exit of the U.K. from the E.U.

The current President of the U.S. has expressed apprehension towards trade agreements, such as the Trans-Pacific Partnership, and suggested that the U.S. would renegotiate or withdraw from certain trade agreements. He has advocated for and imposed tariffs on certain goods imported into the United States, particularly from China. On January 23, 2017, the President of the U.S. signed a presidential memorandum to withdraw the U.S. from the Trans-Pacific Partnership. On October 1, 2018, the U.S., Mexico and Canada agreed to the terms of the United States-Mexico-Canada Agreement, a successor to the North American Free Trade Agreement, which will impact imports and exports among those countries. These and other proposed actions, if implemented, could adversely affect our business because we sell imported products.

**Results of Operations**

QVC's operating results were as follows:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| **(in millions)** | **2018** | **2017** | **2018** | **2017** |
| Net revenue | $ 2,058 | 2,010 | 6,234 | 5,954 |
| Operating costs and expenses: | | | | |
| Costs of goods sold (exclusive of depreciation and amortization shown separately below) | 1,300 | 1,282 | 3,906 | 3,755 |
| Operating | 144 | 145 | 433 | 419 |
| Selling, general and administrative, excluding transaction related costs and stock-based compensation | 197 | 168 | 590 | 463 |
| Adjusted OIBDA | 417 | 415 | 1,305 | 1,317 |
| Transaction related costs | 28 | 3 | 32 | 3 |
| Stock-based compensation | 10 | 9 | 30 | 23 |
| Depreciation | 36 | 38 | 110 | 116 |
| Amortization | 42 | 91 | 119 | 324 |
| Operating income | 301 | 274 | 1,014 | 851 |
| Other (expense) income: | | | | |
| Equity in losses of investee | (1) | — | (2) | (3) |
| Interest expense, net | (57) | (54) | (172) | (165) |
| Foreign currency (loss) gain | (1) | 4 | — | (6) |
| | (59) | (50) | (174) | (174) |
| Income before income taxes | 242 | 224 | 840 | 677 |
| Income tax expense | (69) | (58) | (224) | (225) |
| Net income | 173 | 166 | 616 | 452 |
| Less net income attributable to the noncontrolling interest | (11) | (12) | (33) | (33) |
| Net income attributable to QVC, Inc. stockholder | $ 162 | 154 | 583 | 419 |

***Net revenue***

Net revenue by segment was as follows:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| **(in millions)** | **2018** | **2017** | **2018** | **2017** |
| QVC-U.S. | $ 1,418 | 1,374 | 4,262 | 4,111 |
| QVC-International | 640 | 636 | 1,972 | 1,843 |
| Consolidated QVC | $ 2,058 | 2,010 | 6,234 | 5,954 |

QVC's consolidated net revenue increased 2.4% and 4.7% for the three and nine months ended September 30, 2018, respectively, as compared to the corresponding periods in the prior year. The three month increase in net revenue of $48 million was primarily comprised of $39 million due to a 1.7% increase in average selling price per unit ("ASP"), $26 million due to the inclusion of QVC-branded credit card income ("Q-Card Income") in the U.S., as a result of the adoption of Accounting Standards Codifications ("ASC") 606, *Revenue from Contracts with Customers,* which was previously recorded as an offset to selling, general and administrative expense for the three months ended September 30, 2017 and a $9 million increase in shipping and handling revenue. This was offset by a decrease of $16 million due to a 0.7% decrease in units sold, $5 million in unfavorable foreign currency exchange rates and an increase in estimated product returns of $3 million. The nine month increase in net revenue of $280 million was primarily comprised of a $223 million increase due to a 3.3% increase in units sold, $98 million in favorable foreign currency exchange rates, $78 million due to the inclusion of Q-Card Income in the U.S. and a $15 million increase in shipping and handling revenue. The increase was offset by a $93 million decrease due to a 1.3% decrease in ASP and an increase in estimated product returns of $38 million. The changes in units sold, foreign exchange rates, ASP and estimated products returns are partially impacted by the change in the timing of revenue recognition as part of the adoption of ASC 606. The impact of this change was a $12 million and $30 million increase to net revenue for the three and nine months ended September 30, 2018, respectively, in comparison to net revenue for the three and nine months ended September 30, 2018 without the adoption of ASC 606.

During the three and nine months ended September 30, 2018 and 2017, 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.

In discussing our operating results, the term currency exchange rates refers to the currency exchange rates we use to convert the operating results for all countries where the functional currency is not the U.S. Dollar. We calculate 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 each of QVC's segments in U.S. Dollars and in constant currency was as follows:

| | Three months ended September 30, 2018 | | | Nine months ended September 30, 2018 | | |
|---|---|---|---|---|---|---|
| | **U.S. Dollars** | **Foreign Currency Exchange Impact** | **Constant currency** | **U.S. Dollars** | **Foreign Currency Exchange Impact** | **Constant currency** |
| QVC-U.S. | 3.2% | — % | 3.2% | 3.7% | —% | 3.7% |
| QVC-International | 0.6% | (0.9 )% | 1.5% | 7.0% | 5.3% | 1.7% |

QVC-U.S. net revenue increase for the three months ended September 30, 2018 was primarily due to the $26 million inclusion of Q-Card Income, which was previously recorded as an offset to selling, general administrative expenses for the three months ended September 30, 2017, a 0.8% increase in ASP, a $11 million increase in shipping and handling revenue and a 0.1% increase in units shipped. The increase was offset by a $7 million increase in estimated product returns. For the three months ended September 30, 2018, QVC-U.S. experienced shipped sales increases in accessories, beauty and electronics, and decreases in home, jewelry and apparel. For the nine months ended September 30, 2018, QVC U.S. net revenue increase was due to a 4.5% increase in units shipped, $78 million due to the inclusion of Q-Card Income and a $15 million increase in shipping and handling revenue. The increase was offset by a decrease of 2.3% in ASP and a $37 million increase in estimated product returns. For the nine months ended September 30, 2018, QVC-U.S. experienced shipped sales increases in home, accessories, apparel, and beauty, and decreases in electronics and jewelry.

QVC-International net revenue growth in constant currency for the three months ended September 30, 2018 was primarily due to a 3.3% increase in ASP in all markets except France and a $3 million decrease in estimated product returns. This increase was offset by a 2.1% decrease in units shipped, driven by decreases in Germany and Japan. For the three months ended September 30, 2018, QVC-International experienced shipped sales growth in constant currency in home, electronics, and beauty, with decreases in accessories, apparel and jewelry. Net revenue growth in constant currency for the nine months ended September 30, 2018 was primarily due to a 1.3% increase in units shipped, primarily driven by increases in the U.K., and a 0.3% increase in ASP, primarily driven by Germany and Italy, offset by the other markets. This was offset by a $1 million increase in estimated product returns. For the nine months ended September 30, 2018, QVC-International experienced shipped sales growth in constant currency in electronics, home, and beauty, with decreases in apparel, accessories, and jewelry.

***Cost of goods sold (excluding depreciation and amortization)***

QVC's cost of goods sold as a percentage of net revenue was 63.2% and 62.7% for the three and nine months ended September 30, 2018, respectively, compared to 63.8% and 63.1% for the three and nine months ended September 30, 2017. For both the three and nine months ended September 30, 2018, the decrease in cost of goods sold as a percentage of revenue is primarily due to the inclusion of Q-Card Income in net revenue, which was previously recorded as an offset to selling, general and administrative expenses, offset somewhat by higher warehouse and freight costs.

***Operating expenses***

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 $1 million or 0.7% and increased $14 million or 3.3% for the three and nine months ended September 30, 2018 as compared to the three and nine months ended September 30, 2017, respectively.

For the three months ended September 30, 2018, operating expenses decreased primarily due to a $2 million decrease in commissions primarily in the U.S. This was partially offset by a $1 million increase in credit card fees in the U.S. For the nine months ended September 30, 2018 operating expenses increased primarily due to a $8 million increase in credit card fees in the U.S. and $7 million from unfavorable foreign currency exchange rates.

***Selling, general and administrative expenses (excluding transaction related costs and stock-based compensation)***

QVC's selling, general, and administrative expenses (excluding transaction related costs and stock-based compensation) include personnel, information technology, provision for doubtful accounts, production costs, marketing, advertising expenses and during 2017, credit card income. Such expenses increased $29 million and $127 million for the three and nine months ended September 30, 2018, respectively, compared to the same periods in the prior year. As a percentage of revenue, such expenses increased from 8.4% to 9.6% for the three months ended September 30, 2018 and increased from 7.8% to 9.5% for the nine months ended September 30, 2018, compared to the same periods in the prior year.

For the three months ended September 30, 2018, the increase was primarily due to the reclassification of Q-Card Income, attributing $26 million as a result of the adoption of ASC 606, which was previously recorded as an offset to selling, general and administrative expenses for the three months ended September 30, 2017. Additionally, there was a $11 million increase in outside services primarily in the U.S., the U.K., Germany and Italy, a $6 million increase in bad debt expense primarily in the U.S. and to a lesser extent, Japan, and a $5 million increase in marketing expenses primarily in the U.S. The increase in bad debt expense is due to favorability in default rates from prior periods, mostly related to the Easy-Pay program in the U.S. during the three months ended September 30, 2017. These increases were partially offset by a $13 million decrease in personnel costs primarily in the U.S., Germany, and Japan, and a $1 million decrease due to favorable exchange rates.

For the nine months ended September 30, 2018, the increase was primarily due to the reclassification of Q-Card Income, attributing $78 million as a result of the adoption of ASC 606, which was previously recorded as an offset to selling, general and administrative expenses for the nine months ended September 30, 2017. Additionally, there was a $20 million increase in outside services, primarily in the U.S., the U.K., Germany and Italy, a $14 million increase due to unfavorable exchange rates, a $10 million increase in bad debt expense primarily in the U.S. and to a lesser extent, Japan, and an $8 million increase in marketing expense primarily in the U.S. The increase in bad debt expense is due to favorability in default rates from prior periods, mostly related to the Easy-Pay program in the U.S. during the nine months ended September 30, 2017. The increase was offset by a $5 million decrease in personnel costs primarily in the U.S. and Germany.

***Transaction related costs***

Transaction related costs include restructuring, integration, and advisory fees ("transaction related costs") that were incurred by QVC as it relates to Qurate Retail's acquisition of HSN on December 29, 2017. QVC recorded $28 million and $32 million of transaction related costs for the three and nine months ended September 30, 2018, respectively. QVC recorded $3 million of transaction related costs for both the three and nine months ended September 30, 2017. The increase in transaction related costs is primarily related to severance payments during the third quarter of 2018 related to the future closure of QVC's Lancaster, PA fulfillment center and other initiatives to deliver long term growth.

***Stock-based compensation***

Stock-based compensation includes compensation related to options and restricted stock units granted to certain officers and employees. QVC recorded $10 million and $9 million of stock-based compensation expense for the three months ended September 30, 2018 and 2017, respectively, and $30 million and $23 million of stock-based compensation expense for the nine months ended September 30, 2018 and 2017, respectively. The increase in stock compensation expense is primarily due to transfers of certain zulily employees into the Company subsequent to June 30, 2017 and the timing of the issuance of grants.

***Depreciation and amortization***

Depreciation and amortization consisted of the following:

| | | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|---|
| **(in millions)** | | **2018** | **2017** | **2018** | **2017** |
| Affiliate agreements | $ | — | 25 | 1 | 98 |
| Customer relationships | | 1 | 28 | 3 | 112 |
| Acquisition related amortization | | 1 | 53 | 4 | 210 |
| Property and equipment | | 36 | 38 | 110 | 116 |
| Software amortization | | 23 | 24 | 66 | 70 |
| Channel placement amortization and related expenses | | 18 | 14 | 49 | 44 |
| Total depreciation and amortization | $ | 78 | 129 | 229 | 440 |

For the three and nine months ended September 30, 2018, 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 Qurate Retail's acquisition of QVC in 2003.

***Equity in losses of investee***

The losses were associated with our joint venture in China that is accounted for as an equity method investment.

***Interest expense, net***

For the three and nine months ended September 30, 2018, consolidated interest expense, net increased $3 million or 5.6% and increased $7 million or 4.2%, respectively, as compared to the corresponding period in the prior year. The increase is primarily related to increases in the interest rates used to service the debt.

***Foreign currency (loss) gain***

Certain loans between QVC and its subsidiaries are deemed to be short-term in nature, and accordingly, the translation of these loans is recorded in the accompanying condensed consolidated statements of operations. For the three and nine months ended September 30, 2018, the change in foreign currency (loss) gain was also due to variances in interest and operating payables balances between QVC and its international subsidiaries denominated in the currency of the subsidiary and the effects of currency exchange rate changes on those balances.

***Income taxes***

Our effective tax rate was 28.5% and 26.7% for the three and nine months ended September 30, 2018, respectively, compared to an effective tax rate of 25.9% and 33.2% for the three and nine months ended September 30, 2017, respectively. The Tax Cuts and Jobs Act (the "Tax Act"), enacted in 2017, made broad and complex changes to the U.S. tax code which included a lowering of the U.S. federal corporate income tax rate from 35% to 21% effective January 1, 2018, changes in how foreign earnings are taxed in the U.S., the limitation on the deduction of net interest expense and other changes. The reduction in the effective tax rate for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 is a result of these changes from the Tax Act. The increase in the effective tax rate for the three months ended September 30, 2018 compared to the three months ended September 30, 2017 is due to the impact of prior year discrete permanent differences related to foreign currency losses realized for tax purposes, partially offset by changes from the Tax Act. The 2018 tax rate differs from the U.S. federal income tax rate of 21% due primarily to state and foreign tax expenses.

**Adjusted Operating Income before Depreciation and Amortization (Adjusted OIBDA)**

QVC defines Adjusted OIBDA as net revenue less cost of goods sold, operating expenses and selling, general and administrative expenses (excluding transaction related costs and stock-based compensation). QVC's chief operating decision maker and management team use this measure of performance in conjunction with other measures to evaluate the businesses and make decisions about allocating resources among the businesses. QVC believes that this is an important indicator of the operational strength and performance of the businesses, including the ability to service debt and fund capital expenditures. In addition, this measure allows QVC to view operating results, perform analytical comparisons and perform benchmarking among its businesses and identify strategies to improve performance. This measure of performance excludes such costs as depreciation, amortization, stock-based compensation and transaction related costs (including restructuring, integration, and advisory fees) that are included in the measurement of operating income pursuant to U.S. generally accepted accounting principles ("U.S. 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 U.S. GAAP.

The primary material limitations associated with the use of Adjusted OIBDA as compared to U.S. GAAP results are (i) it may not be comparable to similarly titled measures used by other companies in the industry, and (ii) it excludes financial information that some may consider important in evaluating QVC's performance. QVC compensates for these limitations by providing disclosure of the difference between Adjusted OIBDA and U.S. GAAP results, including providing a reconciliation of Adjusted OIBDA to U.S. GAAP results, to enable investors to perform their own analysis of QVC's operating results. See note 12 to the accompanying condensed consolidated financial statements for a reconciliation of Adjusted OIBDA to income before income taxes.

**Seasonality**

QVC's business is seasonal due to a higher volume of sales in the fourth calendar quarter related to year-end holiday shopping. In recent years, QVC has earned, on average, between 22% and 24% of its revenue in each of the first three quarters of the year and between 30% and 32% of its revenue in the fourth quarter of the year.

**Financial Position, Liquidity and Capital Resources**

***General***

Historically, QVC's primary sources of cash have been cash provided by operating activities and borrowings. In general, QVC uses this cash to fund its operations, make capital purchases, make payments to Qurate Retail, make interest payments and minimize QVC's outstanding senior secured credit facility balance.

As of September 30, 2018, substantially all of QVC's cash and cash equivalents were invested in AAA rated money market funds and time deposits with banks rated equal to or above A.

***Senior Secured Notes***

All of QVC's senior secured notes are secured by the capital stock of QVC and certain of its subsidiaries and have equal priority to QVC's senior secured credit facility. With the exception of the notes in the following paragraph, the interest on QVC's senior secured notes is payable semi-annually. At September 30, 2018, the 3.125% Senior Secured Notes due 2019 are classified within current portion of long-term debt as they mature in less than one year from September 30, 2018.

In September 2018, QVC completed a registered debt offering for $225 million of 6.375% Senior Secured Notes due 2067 (the "2067 Notes"). The proceeds were used to partially prepay existing indebtedness under QVC's senior secured credit facility and for general corporate purposes. The costs to complete the financing were deferred and are being amortized to interest expense over the term of the 2067 Notes. Interest on the 2067 Notes will be paid quarterly in March, June, September, and December, commencing on December 15, 2018. QVC has the option to call the 2067 Notes after 5 years at par value.

***Senior Secured Credit Facility***

On June 23, 2016, QVC entered into the Third Amended and Restated Credit Agreement with zulily as borrowers (collectively, the "Borrowers"), which is a multi-currency facility that provides for a $2.65 billion revolving credit facility with a $300 million 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 the Company or zulily with an additional $50 million sub-limit for standby letters of credit. The remaining $2.25 billion and any incremental loans may be borrowed only by the Company. Borrowings that are alternate base rate loans will bear interest at a per annum rate equal to the base rate plus a margin that varies between 0.25% and 0.75% depending on the Borrowers' combined ratio of Consolidated Total Debt to Consolidated EBITDA for the most recent four fiscal quarter periods (the "Combined Consolidated Leverage Ratio"). Borrowings that are London Interbank Offered Rate ("LIBOR") loans will bear interest at a per annum rate equal to the applicable LIBOR rate plus a margin that varies between 1.25% and 1.75% depending on the Borrowers' Combined Consolidated Leverage Ratio. Each loan may be prepaid at any time and from time to time without penalty other than customary breakage costs. No mandatory prepayments will be required other than when borrowings and letter of credit usage exceed availability; provided that, if zulily ceases to be controlled by Qurate Retail, all of its loans must be repaid and its letters of credit cash collateralized. 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. Any amounts prepaid on the revolving facility may be reborrowed. Payment of loans may be accelerated following certain customary events of default.

QVC had $1,815 million, including the remaining portion of the $400 million tranche that zulily may also borrow on, available under the terms of the Third Amended and Restated Credit Agreement at September 30, 2018. The interest rate on the Third Amended and Restated Credit Agreement was 3.7% at September 30, 2018.

The payment and performance of the Borrowers' 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 the capital stock of QVC. 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 each of zulily's Material Domestic Subsidiaries (as defined in the Third Amended and Restated Credit Agreement), if any, and are 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 the Company and zulily and each of their respective 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; and limiting the Company's consolidated leverage ratio and the Borrowers' Combined Consolidated Leverage Ratio.

***Other Debt Related Information***

QVC was in compliance with all of its debt covenants at September 30, 2018.

During the quarter, there were no significant changes to QVC's debt credit ratings.

There are no restrictions under QVC's debt agreements on QVC's ability to pay dividends or make other restricted payments if QVC is not in default on its senior secured notes or senior secured credit facility, and as long as both QVC's consolidated leverage ratio, and a Combined Consolidated Leverage Ratio for both QVC and zulily, would be no greater than 3.5 to 1.0. As a result, Qurate Retail will, in many instances, be permitted to rely on QVC's cash flow for servicing Qurate Retail's debt and for other purposes, including repurchases of Qurate Retail's common stock, or to fund acquisitions or other operational requirements of Qurate Retail and its subsidiaries. These events may deplete QVC's equity or require QVC to borrow under the senior secured credit facility, increasing QVC's leverage and decreasing liquidity. QVC has made significant distributions to Qurate Retail in the past.

***Interest Rate Swap Arrangements***

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 U.S. GAAP. Accordingly, changes in the fair value of the swap are reflected in other expense (income) in the accompanying condensed consolidated statements of operations. At September 30, 2018, the fair value of the swap instrument was in a net asset position of approximately $2 million which was included in prepaid expenses and other current assets.

***Additional Cash Flow Information***

During the nine months ended September 30, 2018, QVC's primary uses of cash were $2,285 million of principal payments on debt and capital lease obligations, $297 million of dividend payments to Qurate Retail, $205 million of capital and television distribution rights expenditures and $23 million in dividend payments from QVC-Japan to Mitsui. These uses of cash were funded primarily with $1,451 million of principal borrowings from the senior secured credit facility, $225 million from the issuance of the 2067 Notes, $940 million of cash provided by operating activities and $340 million in capital contributions from Qurate Retail. As of September 30, 2018, QVC's cash, cash equivalents and restricted cash balance was $395 million.

During the nine months ended September 30, 2017, QVC's primary uses of cash were $1,791 million of principal payments on debt and capital lease obligations, $491 million of dividends to Qurate Retail, $118 million of capital and television distribution rights expenditures and $22 million in dividend payments from QVC-Japan to Mitsui. These uses of cash were funded primarily with $1,574 million of principal borrowings from the senior secured credit facility and $907 million of cash provided by operating activities. As of September 30, 2017, QVC's cash, cash equivalents and restricted cash balance was $354 million.

The change in cash provided by operating activities for the nine months ended September 30, 2018 compared to the previous year was primarily due to the increase in net income excluding the impact of non-cash items. Cash provided by operating activities is also subject to changes in working capital. Working capital at any specific point in time is subject to many variables, including seasonality, inventory management, the timing of cash receipts and payments, vendor payment terms, and fluctuations in foreign exchange rates.

As of September 30, 2018, $221 million of the $395 million in cash, cash equivalents and restricted cash was held by foreign subsidiaries. Cash in foreign subsidiaries 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 66% 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. We believe that we currently have appropriate legal structures in place to repatriate foreign cash as tax-efficiently as possible and meet the business needs of QVC.

***Other***

Capital expenditures spending in 2018 is expected to be between $220 and $230 million, including $125 million already expended.

Refer to the chart under the "Off-balance Sheet Arrangements and Aggregate Contractual Obligations" section below for additional information concerning the amount and timing of expected future payments under QVC's contractual obligations at September 30, 2018.

QVC has contingent liabilities related to legal and tax proceedings and other matters arising in the ordinary course of business. Although it is reasonably possible QVC may incur losses upon the 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, that may be required to satisfy such contingencies will not be material in relation to the accompanying condensed consolidated financial statements.

**Off-balance Sheet Arrangements and Aggregate Contractual Obligations**

Information concerning the amount and timing of required payments, both accrued and off-balance sheet, under our contractual obligations at September 30, 2018 is summarized below:

| | | | | | | Payments due by period | |
|---|---|---|---|---|---|---|---|
| **(in millions)** | **Remainder of 2018** | **2019** | **2020** | **2021** | **2022** | **Thereafter** | **Total** |
| Long-term debt (1) | $ — | 400 | — | 675 | 500 | 2,875 | 4,450 |
| Interest payments (2) | 31 | 202 | 198 | 183 | 168 | 1,396 | 2,178 |
| Capital lease obligations (including imputed interest) | 7 | 27 | 24 | 24 | 22 | 133 | 237 |
| Operating lease obligations | 6 | 21 | 17 | 11 | 9 | 72 | 136 |
| Purchase obligations and other (3) | $ 1,357 | 707 | 23 | 11 | 3 | 1 | 2,102 |

(1) Amounts exclude capital lease obligations and the issue discounts on our 3.125%, 4.375%, 4.85%, 4.45%, 5.45% and 5.95% Senior Secured Notes. Additionally, the presentation assumes there is no amount outstanding on the $140 million commitment under our senior secured credit facility that matures on March 9, 2020.

(2) Amounts (i) are based on the terms of QVC's senior secured credit facility and senior secured notes, (ii) assumes the interest rates on the floating rate debt remain constant at the rates in effect as of September 30, 2018, (iii) assumes that our existing debt is repaid at maturity and (iv) excludes capital lease obligations.

(3) Amounts include open purchase orders for inventory and non-inventory purchases along with other contractual obligations.

**Adoption of new accounting pronouncements**

On May 28, 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers*, which 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, changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. In March 2016, the FASB issued ASU No. 2016-08, which clarifies principal versus agent considerations, in April 2016, the FASB issued ASU No. 2016-10, which clarifies the identification of performance obligations and the implementation guidance for licensing, and in May 2016, the FASB issued ASU No. 2016-12, which clarifies assessing collectibility, presentation of sales taxes, noncash consideration, and completed contracts and contract modifications at transition. On January 1, 2018, the Company adopted the new accounting standard ASC 606, *Revenue from Contracts with Customers,* and all related amendments ("ASC 606") to all contracts using the modified retrospective method. The Company recognized the cumulative effect of initially applying the new revenue standard as a $14 million adjustment to the opening balance of retained earnings. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. The Company does not expect the adoption of the new revenue standard to have a material impact to its net income on an ongoing basis.

In October 2016, the FASB issued ASU No. 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*, which requires an entity to recognize at the transaction date the income tax consequences of intercompany asset transfers other than inventory. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. The Company adopted this guidance on January 1, 2018 and there was no significant effect of the standard on its condensed consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Statements - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which 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. The Company adopted this guidance during the first quarter of 2018 and there was no significant effect of the standard on its financial reporting.

In August 2016, the FASB issued ASU No. 2016-15,*Statement of Cash Flows (Topic 230)*: *Classification of Certain Cash Receipts and Cash Payments*, which addresses eight specific cash flow issues to reduce the diversity in practice for appropriate classification on the statement of cash flows. The amendments in this ASU are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017 with early adoption permitted. The Company adopted this guidance during the first quarter of 2018 and there was no significant effect of the standard on its condensed consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18,*Statement of Cash Flows (Topic 230): Restricted Cash*, which requires entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. The Company adopted this guidance during the first quarter of 2018 and has reclassified prior period balances in cash and cash equivalents within the condensed consolidated statements of cash flows in order to conform with current period presentation.

In May 2017, the FASB issued ASU No. 2017-09,*Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting* to provide clarity to which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The amendments in this update are effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017 with early adoption permitted. The Company adopted this guidance during the first quarter of 2018 and there was no significant effect of the standard on its condensed consolidated financial statements.

**Accounting pronouncements issued but not yet adopted**

In February 2016, the FASB issued ASU No. 2016-02,*Leases (Topic 842)*, which revises the accounting treatment related to lessee accounting. Under the new guidance, lessees will be required to recognize a lease liability and a right-of-use asset for all leases. The new lease guidance also simplifies the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. In July 2018, the FASB issued ASU No. 2018-11, which provides entities a transition method in which the entity may apply the new lease standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings at January 1, 2019. The Company intends to elect this optional transition method. While the Company is currently evaluating the effect that the updated standard will have on its ongoing financial reporting, it expects that the operating leases listed in note 7 - *Leases* to the accompanying consolidated financial statements will be recognized as right of- use assets and operating lease liabilities on the consolidated balance sheets upon adoption of the new standard. The Company does not anticipate that the adoption will have a material impact on its consolidated statements of operations.

In February 2018, the FASB issued ASU 2018-02,*Income Statement - Reporting Comprehensive Income (Topic 220),* which addresses the effect of the change in the U.S. federal corporate tax rate due to the enactment of the Tax Act on items within accumulated other comprehensive income (loss). The guidance will be effective for the Company in the first quarter of 2019 with early adoption permitted. The Company is currently assessing the impact that adopting this new accounting standard will have on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15,*Intangibles- Goodwill and Other- Internal-Use Software (Subtopic 350-40)*, which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The guidance will be effective for the Company in the first quarter of 2020 with early adoption permitted. The Company is currently assessing the impact that adopting this new accounting standard will have on its consolidated financial statements.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

QVC is exposed to market risk in the normal course of business due to ongoing investing and financial activities and the conduct of operations by 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. QVC has established procedures and internal processes governing the management of market risks and the use of financial instruments to manage exposure to such risks.

***Interest rate risk***

QVC is exposed to changes in interest rates primarily as a result of borrowing activities. Over the long-term, QVC manages the exposure to interest rates by maintaining what QVC believes is an appropriate mix of fixed and variable rate debt.

The table below summarizes the Company’s debt obligations, related interest rates and fair value of debt at September 30, 2018:

| (in millions, except percentages) | | Remainder of 2018 | 2019 | 2020 | 2021 | 2022 | Thereafter | Total | Fair Value |
|---|---|---|---|---|---|---|---|---|---|
| Fixed rate debt (1) | $ | — | 400 | — | — | 500 | 2,875 | 3,775 | 3,666 |
| Weighted average interest rate on fixed rate debt | | —% | 3.1% | —% | —% | 5.1% | 5.0% | 4.8% | N/A |
| Variable rate debt (1) | $ | — | — | — | 675 | — | — | 675 | 675 |
| Average interest rate on variable rate debt | | —% | —% | —% | 3.7% | —% | —% | 3.7% | N/A |

(1) Amounts exclude capital lease obligations and the issue discounts on our 3.125%, 4.375%, 4.85%, 4.45%, 5.45% and 5.95% Senior Secured Notes. Additionally, the presentation assumes there is no amount outstanding on the $140 million commitment under our senior secured credit facility that matures on March 9, 2020.

N/A - Not applicable.

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 U.S. GAAP. Accordingly, changes in the fair value of the swap are reflected in other expense (income) in the accompanying condensed consolidated statements of operations. At September 30, 2018, the fair value of the swap instrument was in a net asset position of approximately $2 million which was included in prepaid expenses and other current assets. A 1% change in the one-month U.S. LIBOR rate (floating portion of the interest rate swap) would result in a change in the value of the swap instrument of less than $1 million.

***Foreign currency exchange rate risk***

QVC is exposed to foreign exchange rate fluctuations related to the monetary assets and liabilities and the financial results of its 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 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 other comprehensive income as a separate component of stockholder's 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 transactions) or realized upon settlement of the transactions. Cash flows from operations in foreign countries are translated at the average rate for the period. Accordingly, QVC may experience economic loss and a negative impact on earnings and equity with respect to its holdings solely as a result of foreign currency exchange rate fluctuations. QVC's reported Adjusted OIBDA for the three and nine months ended September 30, 2018 would have been impacted by approximately $1 million and $3 million, respectively, for every 1% change in foreign currency exchange rates relative to the U.S. Dollar.

The Third Amended and Restated Credit Agreement provides QVC with the ability to borrow in multiple currencies. This allows QVC to somewhat mitigate foreign currency exchange rate risks. As of September 30, 2018, no borrowings in foreign currencies were outstanding.

**Item 4. 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 September 30, 2018 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**

There has been no change in the Company's internal control over financial reporting that occurred during the three months ended September 30, 2018 that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

**PART II**

**Item 6. Exhibits**

(a) *Exhibits*

Listed below are the exhibits which are filed as a part of this Report (according to the number assigned to them in Item 601 of Regulation S-K):

| | |
|---|---|
| 4.1 | Indenture, dated September 13, 2018, by and among QVC, Inc., Affiliate Investment, Inc., Affiliate Relations Holdings, Inc., AMI 2, Inc., ER Marks, Inc., QVC Global Holdings I, Inc., QVC Global Holdings II, Inc., QVC Rocky Mount, Inc., QVC San Antonio, LLC and U.S. Bank National Association, as trustee (incorporated herein by reference to Exhibit 4.1 to QVC, Inc.'s Form 8-A (File No. 001-38654), as filed on September 13, 2018). |
| 4.2 | First Supplemental Indenture, dated September 13, 2018, by and among QVC, Inc., Affiliate Investment, Inc., Affiliate Relations Holdings, Inc., AMI 2, Inc., ER Marks, Inc., QVC Global Holdings I, Inc., QVC Global Holdings II, Inc., QVC Rocky Mount, Inc., QVC San Antonio, LLC and U.S. Bank National Association, as trustee (incorporated herein by reference to Exhibit 4.2 to QVC, Inc.'s Form 8-A (File No. 001-38654), as filed on September 13, 2018). |
| 4.3 | Form of 6.375% Senior Secured Notes due 2067 (incorporated herein by reference to Exhibit 4.3 to QVC, Inc.'s Form 8-A (File No. 001-38654), as filed on September 13, 2018). |
| 31.1 | Rule 13a-14(a)/15d-14(a) Certification* |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certification* |
| 32.1 | Section 1350 Certification** |
| 101.INS | XBRL Instance Document* |
| 101.SCH | XBRL Taxonomy Extension Schema Document* |
| 101.CAL | XBRL Taxonomy Calculation Linkbase Document* |
| 101.LAB | XBRL Taxonomy Label Linkbase Document* |
| 101.PRE | XBRL Taxonomy Presentation Linkbase Document* |
| 101.DEF | XBRL Taxonomy Definition Document* |

*Filed herewith.

**Furnished herewith.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

| | |
|---|---|
| | QVC, Inc. |
| Date: November 9, 2018 | By:/s/ MICHAEL A. GEORGE |
| | Michael A. George |
| | President and Chief Executive Officer (Principal Executive Officer) |
| Date: November 9, 2018 | By:/s/ JEFFREY A. DAVIS |
| | Jeffrey A. Davis |
| | Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer) |

**Exhibit 31.1**

**CERTIFICATION**

I, Michael A. George, certify that:

1. I have reviewed this report on Form 10-Q of QVC, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

    a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

    c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2018

By:/s/ MICHAEL A. GEORGE

Michael A. George

President and Chief Executive Officer (Principal Executive Officer)

**Exhibit 31.2**

**CERTIFICATION**

I, Jeffrey A. Davis, certify that:

1. I have reviewed this report on Form 10-Q of QVC, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2018

By:/s/ JEFFREY A. DAVIS

Jeffrey A. Davis

Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

**Exhibit 32.1**

## Certification

**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**
**(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)**

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), each of the undersigned officers of QVC, Inc., a Delaware corporation (the "Company"), does hereby certify, to such officer's knowledge, that:

The Report on Form 10-Q for the quarter endedSeptember 30, 2018 (the "Form 10-Q") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

| | |
|---|---|
| Date: November 9, 2018 | By:/s/ MICHAEL A. GEORGE |
| | Michael A. George |
| | President and Chief Executive Officer (Principal Executive Officer and Principal Financial Officer) |
| Date: November 9, 2018 | By:/s/ JEFFREY A. DAVIS |
| | Jeffrey A. Davis |
| | Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer) |

The foregoing certification is being furnished solely pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code) and is not being filed as part of the Form 10-Q or as a separate disclosure document.