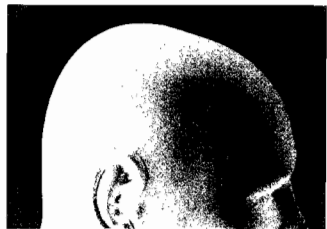


WHY?



Financial Summary

Years ended December 31. (millions, except per share amounts)	Historical		Pro Forma (Unaudited)(a)	
	1989	1988	1989	1988
Revenues	\$7,642	\$4,507	\$10,779	\$ 9,103
Operating Income (loss) before depreciation and amortization (EBITDA)(b):				
Magazines	\$ 318	\$ 317	\$ 318	\$ 317
Filmed entertainment	168	—	312	(82)
Recorded music and music publishing	231	—	500	385
Cable television	522	306	644	444
Programming—HBO	166	118	166	118
Books	(26)	146	(23)	149
Total EBITDA	1,379	887	1,917	1,331
Depreciation and amortization, including amortization related to the purchase of Warner Communications Inc.	(531)	(223)	(1,082)	(966)
Operating Income of business segments (c)	848	664	835	365
Net Income (loss)	(256)	282	(432)	(582)
Less preferred dividend requirements	—	—	555	555
Net Income (loss) applicable to common ▶	\$ (256)	\$ 282	\$ (987)	\$(1,137)
Earnings (loss) per share ▶	\$ (4.34)	\$ 4.88	\$ (17.29)	\$(19.84)

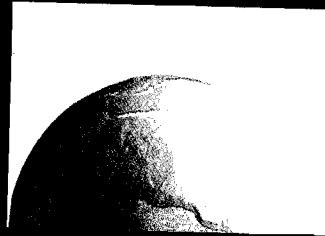
(a) Includes 100% of the operating results of Warner Communications Inc. See Note 2 on page 40.

(b) The fundamental operating performance of acquired businesses is obscured by the accounting requirement to amortize each year a significant portion of the \$14 billion cost to acquire Warner. Therefore, EBITDA (Earnings (loss) Before Interest, Taxes, Depreciation and Amortization) is presented to reflect operating income (loss) before depreciation and amortization expense. Although it is one way that Wall Street measures cash flow, EBITDA is not adjusted for all noncash expenses (e.g., 1989 Books division EBITDA is not adjusted to eliminate the \$175 million noncash loss from the sale of Scott, Foresman) or for working capital, capital expenditures and other investment requirements.

(c) See Note 13 on page 47.

In the Eighties we witnessed the most profound political and economic changes since the end of the Second World War. As these changes unfolded, Time Inc. and Warner Communications Inc. came independently to the same fundamental conclusion:

Global



ization

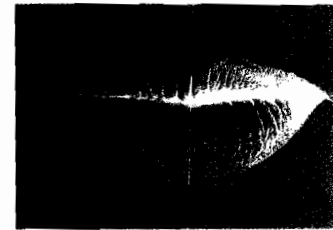
globalization was rapidly evolving from a prophecy to a fact of life. No serious competitor could hope for any long-term success unless, building on a secure home base, it achieved a major presence in all of the world's important markets.

Warner
Book Warner
Time Warner
Group
Networks
Entertainment
Cable Networks
Time Warner

With this goal in mind, Time and Warner began discussions on joint ventures. The more we talked—and the more we learned about each other—the more obvious it became that the most significant and exciting possibility was a synthesis that would lift us to a position neither could achieve alone.

After extensive negotiations and careful consideration of all the options, our boards unanimously approved Time's acquisition of Warner. Subsequently, in the face of a hostile takeover attempt against Time, the terms of that agreement were amended. Although the shape of the transaction changed, the substance of what brought us together has remained the same.

The creation of Time Warner required us to in-



crease our

long-term debt to \$10.8 billion, a figure some

might con-

sider daunting. We don't. First, our cash flow not only puts us in a solid position to meet our

FEEDING THE APPETITE FOR INFORMATION AND ENTERTAINMENT

financial obligations but also allows us to invest in our businesses and take

advantage of opportunities as they arise. Second, our current cost to borrow from commercial

DOESN'T SATISFY THE HUNGER...

banks is below prime—a rate most corporations would find extremely attrac-

tive. We have both the resolve and the resources to improve our credit rating.

IT INCREASES IT.

Time Warner is a competitive global leader for the Nineties and the century

beyond. Every one of our businesses enjoys a leadership position. Through our distribution

networks and direct-marketing capacity, each has a unique advantage in reaching its cus-

tomers. All have earned the respect and trust of consumers. In a season of history when technology has combined with political and social change to open vast new markets, we are a company equipped to reap the greatest benefits.

For our employees, Time Warner opens new horizons and offers the potential for new rewards. Our single greatest strength is our people. No other company could hope to assemble – nor could we hope to replace – the sheer range of talent and experience that this company possesses. Historically, the managements of Time and Warner have been distinguished by their exceptional continuity, enabling them to sustain the long-term strategies and relationships needed to turn great ideas into great businesses. Our combined management team will build on our enduring relationships with the journalists and artists who are a vital and valued part of our creative family.

For our shareholders, Time Warner offers long-term value. At a time of spiraling global demand, we are the preeminent source of media and entertainment.

For our customers, Time Warner enhances our ability to create and deliver products and services of the highest quality.

For America, Time Warner ensures a powerful presence among the international giants competing against each other across the planet. Every one of our businesses is highly successful, ranking first or second in its category.

IT IS ESTIMATED

THAT EUROPEAN

TV PROGRAM

HOURS WILL

INCREASE 270%

BETWEEN 1987

AND 1995.

Time Warner's magazines are the most profitable in the industry, enjoying the highest margins and largest share of advertising revenues, over 20 percent. During the last decade, *We publish four national weeklies ... no one else has more than one.* through acquisitions, joint ventures and start-ups, the number of our magazines has more than tripled, from eight to 25. Anticipating a changing marketplace, we redesigned six of our New York-based publications – *Time, Life, Fortune, Sports Illustrated, People* and *Money* – making great franchises even better. In February of this year we launched *Entertainment Weekly*, which started with a rate base of 600,000, well above early projections.

Warner Bros., our motion-picture studio, was No. 1 in film rentals in 1989, with a 19 percent market share, and has been among the top three for the past seven years. *Batman* soared to new company records at the box office. Outside the U.S., Warner Bros. International marked its fifth consecutive year of record-breaking growth, and at home as well as abroad, Warner Home

“To see life; to see the world; to eyewitness great events...”

Henry Luce, 1936
Prospectus for *Life* magazine

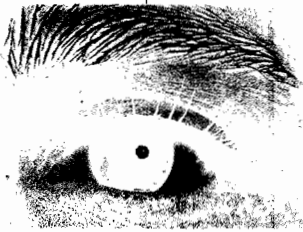
Video set records of its own. Warner Bros. Television and Lorimar Television have 18 programs in prime time – 20 percent of network prime-time hours.

The Warner Music Group's revenues have grown 179 percent over the past five years. Our record group, with its own manufacturing and distribution arms, is the world's largest and most profitable. More than half of the group's revenues comes from outside the U.S. On the talent side, our roster of top recording artists is unmatched. In 1989

we garnered 34 percent of all platinum records in the U.S. and 36 percent of the gold. In Warner/Chappell we have the largest worldwide music publisher.

Time Warner Cable, which comprises our 82-percent-owned American Television and Communications (ATC) and 100-percent-owned Warner Cable, ended the year with a robust 10 percent growth in basic subscribers. We now have a subscribership of 6.14 million. Thanks to the clustering strategy that both companies have followed, our systems serve customers in four of the top ten viewing markets.

In cable programming, Home Box Office, Inc., with a total of 23.7 million subscribers to

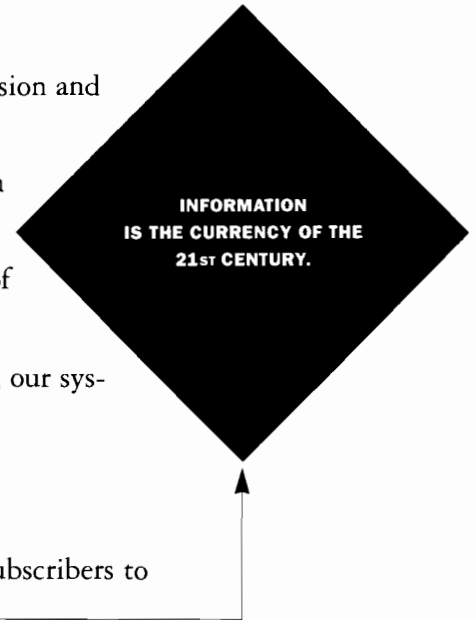


HBO and its sister service, Cinemax, remains the premier pay programmer, a position it has retained for 15 consecutive years.

Last year HBO launched The Comedy Channel, its first venture into the fast-growing business of advertiser-supported basic programming.

As the nation's second-largest book publisher, our books group combines Time Warner Trade Books with Time Inc. Books Direct, the industry's most successful direct marketer.

No competitor can match our lineup of quality products. But just as impressive is how we distribute them. We are the only company of its kind that owns and controls 100 percent of its worldwide distribution networks. We can control the flow of our products to market and aren't required to share our distribution profits in the process. Besides our own productions, our dis-



world's largest record company

Cassettes still dominate / CDs exploding



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tribution capacity allows us to handle the movies, prerecorded music and videocassettes of other major companies and brings us sizable incremental revenues.

“Wait ’til they get a load of me!”

Jack Nicholson as “the Joker,” *Batman*
Warner Bros., 1989

Already a leading distribution channel for film and television programming, cable is the fastest-growing of all the major American media. As our systems chalk up higher levels of penetration, their position con-

tinues to be enhanced.

Time Distribution Services and Warner Publisher Services supply wholesalers and retailers with our magazines and paperbacks, as well as those of other publishers.

Time Warner is also among the largest direct marketers. Whether it’s Time-Life Books’ continuity series, or Oxmoor House, or Book-of-the-Month Club, or subscriptions to our magazines or to cable, we bring many of our products and services straight to consumers. Once again, by and large, we keep control of distribution and retain the profits. In the process we reinforce a brand-awareness that is deeply ingrained in the public consciousness.

The scope of our distribution networks is unique; their value, incalculable. Because we have operations in almost every major city throughout the world, we can distribute new or different products with minimal additional expense to meet consumer demand. This gives us a critical competitive advantage.

OVER **1**
3 OF OUR HOME VIDEO PRODUCTIONS

Over the years, advances in technology have uncovered a lode of opportunities for us.

Fifteen years ago, cable was a curiosity. HBO's pioneering use of satellite distribution changed cable into a vital source of new programming and a multibillion-dollar industry.

Ten years ago, barely 1 percent of American television households owned a VCR. Today, with 67 percent owning at least one, we have both a booming videocassette business and a lucrative new outlet for our film library, one of the richest inventories of its kind. Eight years ago, the compact disc had yet to be sold commercially. By the end of last year, 18 percent of American households had upgraded to CD players. From these two technologies alone, our businesses generated \$2 billion in worldwide revenues in 1989.

We enjoy all of technology's benefits without having to

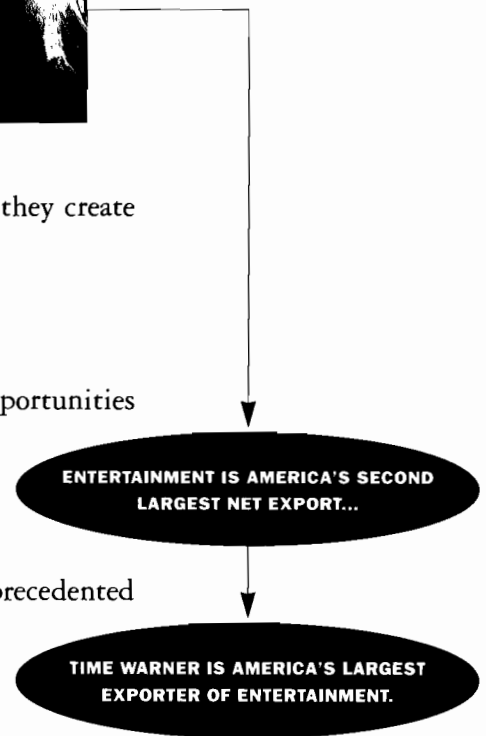
shoulder the financial burdens involved in research and devel-

opment. And we know from long experience that when new media are introduced they create whole new levels of demand.

In the decade ahead, we see an acceleration in the growth of benefits and opportunities that technology brings. Thanks to selective binding and ink-jet printing, for example, our magazines are now beginning to offer advertisers TargetSelect, an unprecedented capability for reaching specific readers. The spread of new cable technology is making pay-per-view increasingly attractive. The video laserdisc is a new medium that marries video, audio and print. As its commercial introduction progresses, we will be able to create



THE BIGGEST
UPSET IN
BOXING HISTORY
WAS SEEN
EXCLUSIVELY
ON HBO.



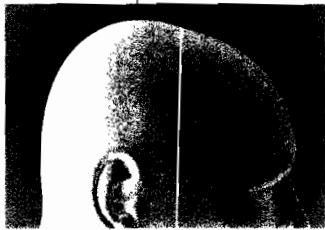


products for this new medium and resell our video and audio libraries in new formats.

As important as new hardware is, it alone can't bring success. Only quality programming can. Cable TV is an example. The technology of cable opened an expanding television universe. But the key to the industry's success in changing America's viewing habits is quality programming. This is the reason cable is now in more than half of

America's TV households, with penetration increasing every year.

What is true for cable is true for every other medium: the more quality products we can offer around the world, the more voracious the appetite for such products will become.



The potential is breathtaking. Time Warner's debut has coincided with an

epochal shift in Eastern Europe and the Soviet Union. The concrete certainties

that seemed permanently to imprison that part of the planet have cracked and crumbled. We

are witnessing a deep stirring in the world, an aching to share in the democratic freedoms that

America enjoys in such abundance, in the options we have in small matters as well as great,

and in the diversity of choices we have about what we view or listen to or read.

THE NEWS MAGAZINE . . .

Time Warner welcomes the role it can play in helping to offer people all over the world a

THE TALKING PICTURE . . .

new diversity of thought and expression. For example, two new pay services have more than

SATELLITE CABLE PROGRAMMING . . .

doubled Britain's programming availability and given us the opportunity to increase

TIME WARNER INVENTIONS

significantly the distribution of our films and television programming. With new channels and

pay services now opening in other countries, we see additional potential to expand the sale of our products and services.

We are firm believers in open markets, and just as we have resisted the imposition of trade barriers in the U.S., we resist it abroad. Protectionism is bad economics. For the media and entertainment industry, the harm it does is as much intellectual as material.

Entertainment is the U.S.'s second-largest net export, with Time Warner winning the largest share. An intrinsic component of America's—and of Time Warner's—success in international markets is copyright protection. We are encouraged by the increasing international adherence to this protection, especially among the nations of the Pacific Rim, and we will continue to look to the federal government to support efforts to enforce copyrights in every market.

Our proven skill in selling and distributing film and recorded music around the world makes us extremely enthusiastic about what lies ahead. In some ventures the most sensible and profitable course will be to proceed on our own. In

*“...this is the beginning of
a beautiful friendship.”*

Humphrey Bogart as “Rick,” *Casablanca*
Warner Bros., 1942

others, one of the key ingredients in our overall success will be our ability to form partnerships that both facilitate market access and draw on the experience and expertise of companies based outside the U.S.

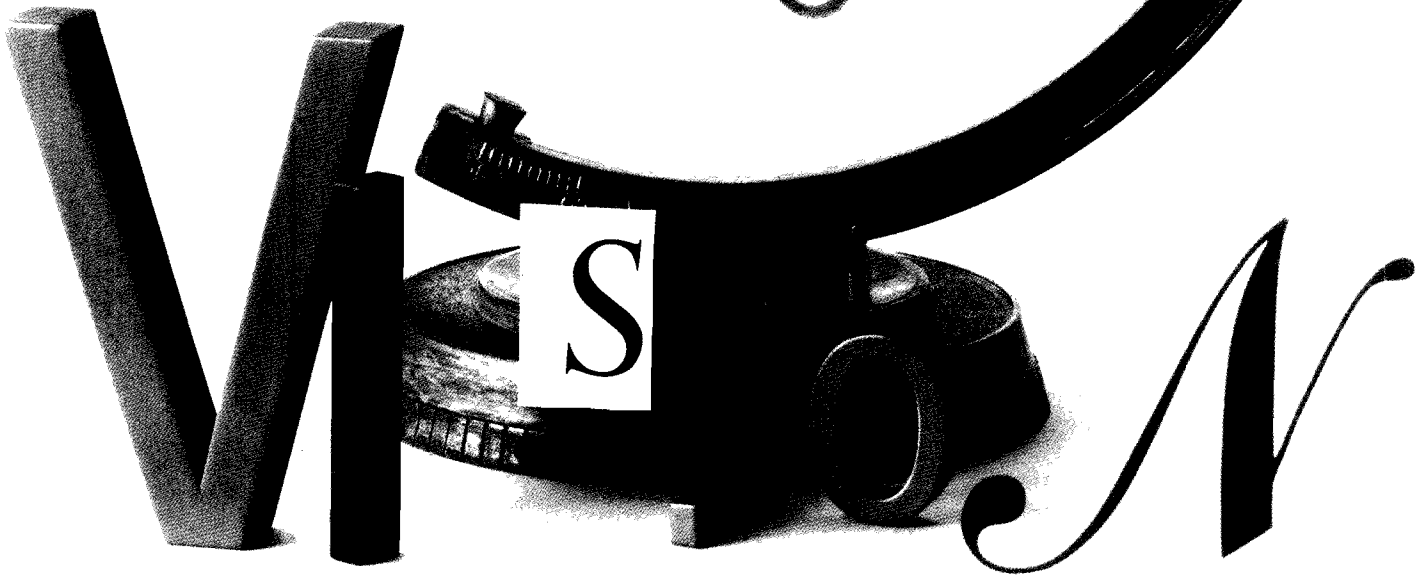
Our magazines are already using this concept to real advantage. In France and Italy,

Television feeds the global village

**The world's
largest
pay-television
service**

DISTRIBUTION

CABLE



Fortune magazine is published in conjunction with European partners, and we have formed publishing partnerships in Asia. We are also working with the Soviet Union to build new multiplex theatres in Moscow and Leningrad. We believe there will be increasing opportunities to establish joint ventures and transcontinental partnerships.

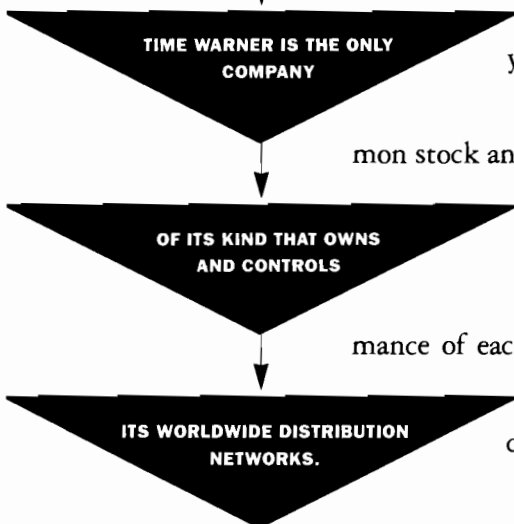
The single most important ingredient in our future is our people. We are sad, then, to report the passing of Nesuhi Ertegun, the founder of WEA International. He epitomized the continuity and quality of our management. The legacy he leaves—the achievements and the dreams—is an enduring reminder of Time Warner’s rich resources of imagination, intellect and artistry. With them we will generate



existing businesses and new ideas for those to come.

For 1989 Time Warner’s financial results, as presented on the inside front cover of this Annual Report, show a net loss of \$256 million or \$4.34 per share. These results reflect Time Warner’s 59.3 percent ownership of Warner Communications for the last five months of the year, a significant increase in interest expense due to the purchase of Warner common stock and the use of purchase accounting.

The results are also reported on a pro forma basis that reflects the performance of each of our businesses as if they had been fully owned for the last two years. The complex accounting requirements of our merger should not obscure the fact that



every one of our businesses (excluding the noncash loss from the Books group's sale of Scott, Foresman) achieved record revenues and operating results.

The following discussion reflects, on a pro forma basis, earnings before interest, taxes, depreciation, and amortization (EBITDA or operating results), one way that Wall Street measures cash flow.

In Magazines, revenues were \$1.9 billion, and after start-up expenses for *Entertainment Weekly*, operating results for the year exceeded 1988, reaching a record \$318 million. Led by the huge success of *Batman*, our Filmed Entertainment division recorded revenue growth of 32 percent, and operating results were \$312 million—a new high. In 1989 the Recorded Music and Music Publishing division became the world's largest record company and posted all-time-high revenues and operating results of \$2.5 billion and \$500 million, respectively. Time Warner Cable had record operating results of \$644 million on 22 percent higher revenues. Despite the launch-related expenses of The Comedy Channel, HBO's revenues were \$1.2 billion and operating results were \$166 million, another record performance. Our Books operation had revenues of \$1.1 billion but posted a loss of \$23 million, reflecting the \$175 million pretax noncash loss on the sale of Scott, Foresman.

In total, our businesses achieved revenues of \$10.8 billion and operating results of \$1.9 billion. These results underline the breadth and strength of our operations. They make us

confident that as we aggressively pursue our global strategy and expand our worldwide assets, we will dramatically increase Time Warner's shareholder values.

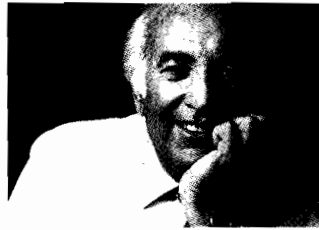
In the past, the magazines, books, movies, programming and music we produced and dis-

"I've seen the future..."

Prince, *Batman* Soundtrack
Warner Bros. Records, 1989

tributed helped enlarge the hunger for ideas and images. Time and Warner grew with their audiences, influencing tastes, widen-

ing horizons, sometimes reflecting people's hopes, other times helping to form them. The successes of our two companies continually created a widening demand for the best in information and entertainment.



Now a new era in human history has begun.

In spirit, if not in fact, we have already entered the 21st century.

The world is our audience.

J. Richard Munro
Co-Chairman and
Co-Chief Executive Officer

Steven J. Ross
Co-Chairman and
Co-Chief Executive Officer

N.J. Nicholas Jr.
President

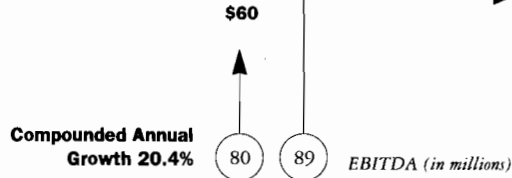
HOW

Magazines

Pro Forma (in millions)	1989	1988
Revenues	\$1,855	\$1,752
EBITDA	\$ 318	\$ 317



MAGAZINE PROFIT GROWTH IN THE 1980s



Our No. 1 objective is customer satisfaction – of both readers and advertisers.

1989 Journalism Awards

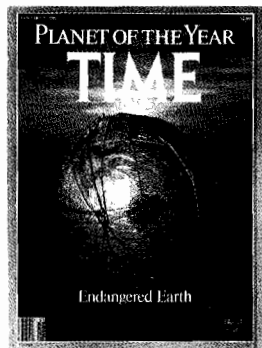
Sports Illustrated

National Magazine Award for General Excellence

Time

Overseas Press Club Award
National Wildlife Federation's National Conservation Achievement Award for Planet of the Year

► *The independence and quality of our journalism is the foundation of our magazines' success.*



People

Overseas Press Club Award

Fortune

Overseas Press Club Award
Gerald Loeb Award

Money

Gerald Loeb Award

Hippocrates

National Magazine Award for Single Topic Issue

Time

Sports Illustrated

People

Entertainment Weekly

Fortune

Money

Life

Sports Illustrated For Kids

Parenting

Southern Living

Progressive Farmer

Southern Accents

Cooking Light

Time Inc. Magazines represent over 20% of all advertising dollars placed in consumer magazines.

Time Inc. Magazines had advertising revenue 50% greater than its nearest competitor.

1989 MAGAZINE INDUSTRY RANKING

Industry Leaders	1989 Advertising Revenues
1. Time	\$360 million
2. Sports Illustrated	\$326 million
3. People	\$318 million
4. TV Guide	\$312 million
5. Business Week	\$258 million

Fortune ranked #1 among the non-weeklies with \$166 million in advertising revenues.

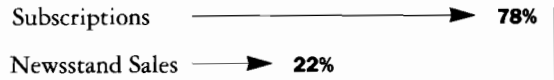
Advertising statistics from

ADVERTISING

Publishers Information Bureau

TargetSelect:
Magazines customized
and personalized to the
subscriber enabling
access to broader
advertising budgets.

Circulation Revenue Mix



Through computer-controlled selective binding and ink-jet printing, ads can be customized to contain messages and advertising directed at a target group, and personalized to the subscriber.

American Family Publishers (50% owned) sells subscriptions for over 200 major magazines primarily through nationwide sweepstakes mailings.

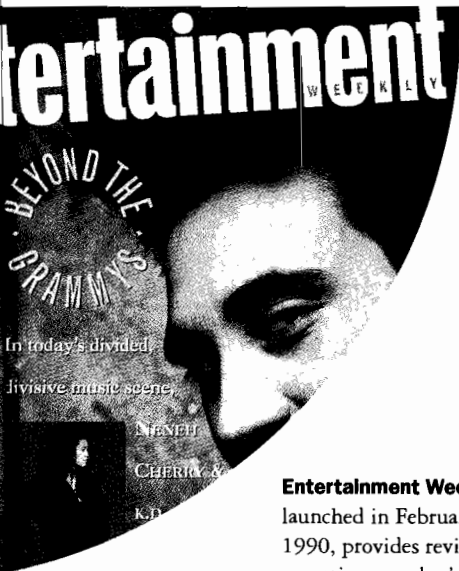
Time Distribution Services, a joint venture with the New York Times Magazine Company, distributes and markets both companies' magazines to retail outlets.

Publishers Express Initially serving the suburban Atlanta area, Publishers Express is a new partnership with other publishers and mailers, managed by Time Inc. Magazines, to develop an alternative delivery service to the U.S. Postal Service.

Foreign Partners
HACHETTE, S.A.
ARNOLDO MONDADORI EDITORE, SPA
DIAMOND PUBLISHING CO., LTD.
SEIBU SAISON
JOHN FAIRFAX, LTD.

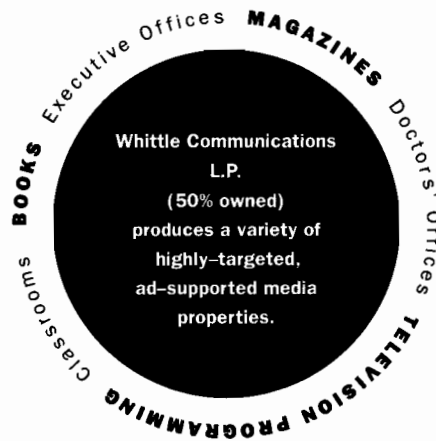
- Travel South
- Southpoint
- In Health
- Hippocrates
- Working Woman
- Working Mother
- Aslaweek
- Yazhou Zhoukan
- President
- Fortune France
- Fortune Italia
- Elle Japon

Time Inc. Magazines, with four weeklies, is the only publisher with more than one large-circulation consumer weekly in the United States.



Entertainment Weekly, launched in February 1990, provides reviews and reporting on what's new in TV, movies, music, video and books.

Initial circulation: 600,000. Launched with advertising commitments from over 150 leading national advertisers.



INCREMENTAL SOURCES OF GROWTH...

New Products	New Services	Line Extensions	International
ENTERTAINMENT WEEKLY COOKING LIGHT PARENTING SOUTHPOINT TRAVEL SOUTH CHANNEL ONE (WHITTLE) THE LARGER AGENDA SERIES (WHITTLE BOOKS)	TARGETSELECT PUBLISHERS EXPRESS	SPORTS ILLUSTRATED FOR KIDS IN HEALTH SPORTS ILLUSTRATED VIDEOS BOOKS OXMOOR HOUSE	TIME INTERNATIONAL FORTUNE INTERNATIONAL ASIAWEEK YAZHOU ZHOUKAN FORTUNE FRANCE FORTUNE ITALIA PRESIDENT ELLE JAPON

...through internal development, joint venture partnerships and acquisitions.

Filmed Entertainment

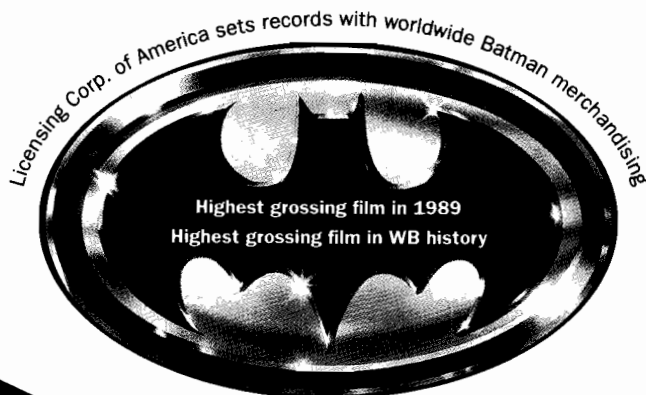
Pro Forma* (in millions)	1989	1988
Revenues	\$2,760	\$2,096
EBITDA	\$ 312	\$ (82)

* Includes 100% of the operating results of Warner Communications Inc. See Note 2 on page 40. ** Restated for Lorimar acquisition.

- # 1 in film rentals for 1989—19.2% market share
- 4 times at #1 in the '80s—more than any other studio
- Consistent strong performance has placed Warner Bros. among the top three studios for seven straight years.

Warner Bros. International theatrical revenues increased more than 16%, setting a record for its 5th straight year.

Driving Miss Daisy was nominated for 9 Oscars including Best Picture, Best Actor, Best Actress, Best Supporting Actor, and Best Screenplay.



1989 FILM HIGHLIGHTS

Title	Starring	Domestic Box Office*
BATMAN Directed by Tim Burton	Jack Nicholson Michael Keaton	\$251 Million
LETHAL WEAPON 2 Directed by Richard Donner	Mel Gibson Danny Glover	\$147 Million
NATIONAL LAMPOON'S CHRISTMAS VACATION	Chevy Chase	\$70 Million
TANGO AND CASH	Sylvester Stallone Kurt Russell	\$59 Million
DRIVING MISS DAISY	Morgan Freeman Jessica Tandy Dan Akroyd	\$54 Million

* As of 2/26/90

D.C. Comics owns all rights to such world-famous characters as Superman, Batman and Wonder Woman.

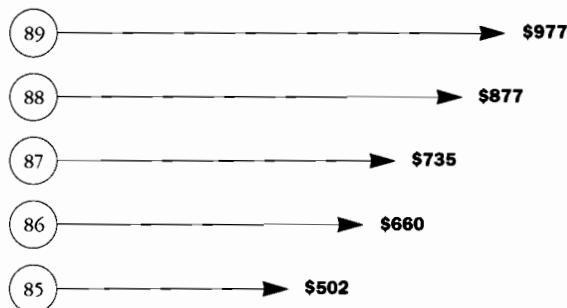
- Despite increases in cable and VCR penetration, unit sales at the box office reached a record high in 1989.

1990 RELEASES INCLUDE:

Title	Starring
THE BONFIRE OF THE VANITIES Directed by Brian DePalma	Tom Hanks Bruce Willis Melanie Griffith
GOODFELLAS Directed by Martin Scorsese Executive Producer Barbara DeFina Produced by Irwin Winkler	Robert DeNiro Ray Liotta Joe Pesci Paul Sorvino
GREMLINS 2: THE NEW BATCH Directed by Joe Dante Executive Producers Steven Spielberg, Kathleen Kennedy & Frank Marshall Produced by Michael Finnell	Zach Galligan Phoebe Cates
MEMPHIS BELLE Produced by David Putman & Catherine Wyler	Matthew Modine Eric Stolz
MY BLUE HEAVEN Directed by Herbert Ross	Steve Martin Rick Moranis Joan Cusack
PRESUMED INNOCENT Directed by Alan Pakula	Harrison Ford Greta Scacchi
QUICK CHANGE Directed by Bill Murray & Howard Franklin	Bill Murray Geena Davis Randy Quaid Jason Robards
THE ROOKIE Directed by Clint Eastwood	Clint Eastwood Charlie Sheehan

BACKLOG

In millions



Warner Bros.' backlog, representing future revenues and earnings not yet recorded from the licensing of theatrical films and television programming for pay television, network and syndicated television exhibition grew to \$977 million at year-end. (Includes revenues from HBO. See page 52.)

NEW
ALL-TIME
HIGHS



More than half of WHV videocassettes sales were from overseas. WHV distributes

internationally for

VIDEO RELEASES

Significant 1989 Titles	Major 1990 Releases
BATMAN, TEQUILA SUNRISE, THE DEAD POOL, THE ACCIDENTAL TOURIST, DANGEROUS LIAISONS	LETHAL WEAPON 2, CHRISTMAS VACATION, TANGO AND CASH, BATMAN (Int'l.), RAIN MAN (Int'l.)

Developing a consumer purchase habit:

- Initially, the videocassette business grew as a rental business. Now a new business is developing called "sell thru," where consumers buy videocassettes and over time build a personal library of movies.
- Continuing to support the rental business.

Basic cable networks are growing and licensing Warner Bros. products including *The Scarecrow and Mrs. King*, *Spenser for Hire*, *My Sister Sam*, and *Looney Tunes/Merrie Melodies*.

COUNTRIES



Warner Home Video (WHV), the largest worldwide home video operation, achieved record sales.

World's largest distributor of television programming

- Developing in 1990 for international markets: *The Warner Hour*, a compilation of animation, family series and local programming.
- Strong growth expected in Germany and Eastern Europe.

United Artists, Cannon and Weintraub Entertainment Group.



Warner Bros. International Television licenses over 13,000 hours of programming to over 100 countries, in a dozen languages.

Pay-TV revenues grew more than 29% in 1989.

Lorimar—one of the largest first-run syndication programmers. New shows for 1990 include:

- Voices of America*, talk show with Jesse Jackson
- Steven Spielberg's *Tiny Toon Adventures*, original animated series
- Trump Card*, daily game show produced at Trump Castle Hotel



The Bugs & Tweety Show and *Beetlejuice* are consistently ranked in the top three Saturday morning shows.

18 SHOWS ON PRIMETIME

Warner Bros. Television	Lorimar Television
CHINA BEACH	ALF
GROWING PAINS	DALLAS
HEAD OF THE CLASS	FALCON CREST
JUST THE TEN OF US	FAMILY MATTERS
LIFE GOES ON	FULL HOUSE
MURPHY BROWN	HOGAN FAMILY
NIGHT COURT	ISLAND SON
	KNOTS LANDING
	MIDNIGHT CALLER
	PARADISE
	PERFECT STRANGERS
6 upcoming pilots	8 upcoming pilots

Pilots represent potential new network series.

Candice Bergen



OFF-NETWORK SYNDICATION

Head of the Class	China Beach
Perfect Strangers	Full House
Growing Pains	The Hogan Family
1989	1991 & Beyond
Alf	
1990	

Just the Ten of Us

Midnight Caller

Murphy Brown

Music

RECORDED MUSIC AND MUSIC PUBLISHING

Pro Forma* (in millions)	1989	1988
Revenues	\$2,545	\$2,040
EBITDA	\$ 500	\$ 385

* Includes 100% of the operating results of Warner Communications Inc.
See Note 2 on page 40.

Motley Crue



NEW ALL-TIME
HIGHS



Phil Collins

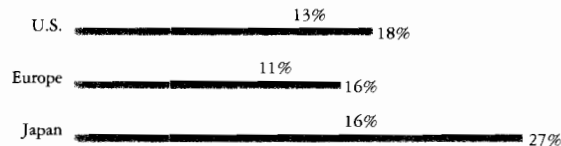
Ivy Hill Corporation
Printing and packaging for
Warner Music Group,
Warner Home Video and
third-party business

RECORDING

- The Warner Music Group is the largest record company in the world.
- Foreign sales represent more than half of total revenues.

CD PLAYER PENETRATION

1988 * 1989







Sources: EIA, JPRA



Simply Red

More than two-thirds of the record industry's revenues come from outside the U.S.

Company	Major Labels	1989 Top Selling Albums	1990 Major Releases
Warner Bros. Records 	Warner Bros. Records Reprise Sire Nashville	Madonna, <i>Like A Prayer</i> ; Prince, <i>Batman</i> Soundtrack; B-52's, <i>Cosmic Thing</i> ; Eric Clapton, <i>Journeyman</i> ; Randy Travis, <i>No Holdin' Back</i>	Fleetwood Mac, Madonna, ZZ Top, Chicago, Van Halen, John Fogerty, Paul Simon, Depeche Mode, Rod Stewart
Atlantic Recording Group 	Atlantic Records Atco Virgin (distribution)	Paula Abdul, <i>Forever Your Girl</i> ; Skid Row, <i>Skid Row</i> ; Debbie Gibson, <i>Electric Youth</i> ; Phil Collins, <i>But Seriously</i> ; <i>Beaches</i> Soundtrack	Robert Plant, INXS, Debbie Gibson, Winger, AC/DC, Yes, Steve Winwood, Paula Abdul
Elektra Entertainment 	Elektra Nonesuch Elektra International Classics	Motley Crue, <i>Dr. Feelgood</i> ; Linda Ronstadt, <i>Cry Like a Rainstorm, Howl Like the Wind</i> ; Tracy Chapman, <i>Crossroads</i> ; The Cure, <i>Disintegration</i> ;	Keith Sweat, Anita Baker, Teddy Pendergrass, 10,000 Maniacs, Michael Feinstein, Kronos Quartet
WEA International 	WEA Teldec CGD East West Erato Disques Moon WEA Latina	Tanita Tikaram, <i>Tanita Tikaram</i> ; Enya, <i>Watermark</i> ; Chris Rea, <i>Road to Hell</i> ; Simply Red, <i>A New Flame</i> ; Akina Nakamori, <i>Akina Nakamori</i>	Peter Maffay, Tanita Tikaram, Enya, Chris Rea, Akina Nakamori, Tatsuro Yamashita, Luis Miguel, Paolo Conte

WEA International's own
International artists
represented over 35% of
its revenues in 1989.

WARNER MUSIC GROUP 1989



Warner Music Group in the U.S. captured over:

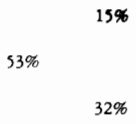
- 34% of all platinum
- 36% of all gold
- 36% of all Grammy nominations.

Technological advances and international growth have fueled enormous growth and allow us to resell our music catalogue.

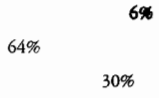
Distribution Company	Major Labels
WEA Corp. in the U.S.	Warner Bros. Records Elektra Entertainment Atlantic Recording Group Virgin Records Geffen Records
WEA International outside the U.S. (51 countries)	Warner Bros. Records Elektra Entertainment Atlantic Recording Group WEA International MCA (outside Canada and U.K.) Geffen Records

WARNER MUSIC GROUP

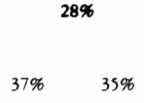
1989 Unit Mix



Worldwide



Domestic



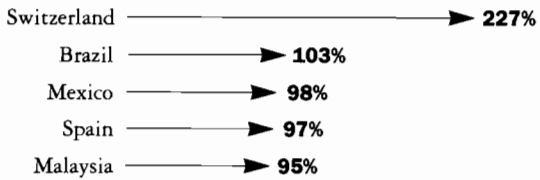
International

LPs
Cassettes
CDs

Warner/Chappell Music achieved record results in 1989. Largest worldwide music publishing company. Administers rights to over 800,000 popular and historical musical titles.

WEA INTERNATIONAL

Greatest 1989 revenue gains:



Records, cassettes and compact discs for Warner and third parties

WEA Manufacturing:
345 million units

+

WEA International:
114 million units

=

1989 Worldwide:
459 million units

WEA International had average annual profit growth of 30% during the '80s.

Major publishing artists include: Michael Jackson, Madonna, U2, Cole Porter, Prince, George and Ira Gershwin, Midnight Oil, Van Halen, George Michael, Whitesnake, Tanita Tikaram and the song, "Happy Birthday."



Madonna

WEA artists earned 677 gold and platinum certifications...

in 33 countries outside the U.S. in 1989.

Cable

Time Warner Cable is the second-largest cable operator in the U.S., with systems in 35 states.

Pro Forma* (in millions)	1989	1988
Revenues	\$1,543	\$1,268
EBITDA	\$ 644	\$ 444

Margin grew to 41.7%

* Includes 100% of the operating results of Warner Communications Inc. See Note 2 on page 40.

Time Warner Cable Group is:
 American Television and Communications Corp. (ATC), 82% owned;
 Warner Cable Communications Inc., 100% owned.

NEW
 ALL-TIME
 HIGH

CLUSTERING

► *Cable is the best entertainment value in the world today.*

Cable operators have greatly expanded their channel capacity, offering more and varied options to the consumer. Prices on a per-channel basis have remained virtually flat, only increasing from \$0.44 per month in 1986 to \$0.46 in 1988.

Every year, the industry commits millions of dollars for plant upgrades to continually improve the value delivered to our customers. Time Warner Cable had capital expenditures in 1989 of \$280 million and estimates \$300 million for 1990.

- Time Warner Cable owns 25 of the top 100 systems in the U.S.
- Clustering in attractive, high-growth areas such as New York, Florida, Ohio and North Carolina

Major benefits:

- economies of scale
- operating efficiencies
- marketing efficiencies - advertising.

1989 Major Acquisitions: systems that built upon our cluster philosophy.

ATC added 105,000 subscribers in Florida. Warner Cable added 107,000 subscribers in Ohio.

Warner Cable Systems
 ATC Systems

SUBSCRIBER STATISTICS

	ATC		Warner Cable		Time Warner Cable	
	89	88	89	88	89	88
Homes Passed (mil.)	7.41	6.89	3.32	2.88	10.73	9.77
Basic Subscribers (mil.)	4.40	4.04	1.74	1.53	6.14	5.57
Basic Penetration	59.3%	58.6%	52.4%	53.1%	57.2%	57.0%
Pay Units (mil.)	3.22	3.13	1.52	1.34	4.74	4.47

Note: Includes unconsolidated systems.

SUBSCRIBERS

New York City Territory includes Manhattan Cable, Paragon Manhattan, American Cablevision of Queens, Brooklyn Queens Cable, and Queens Inner Unity Cable.

NEW YORK CITY

(in thousands)	1989	1988
Basic Subscribers	619.8	516.4
Pay Units	713.8	554.6

Advertising and pay-per-view are the two greatest opportunities for incremental income.

Time Warner Cable advertising sales are continuing to grow strongly—37% increase in 1989.

Pay-per-view revenues grew over 49% in 1989. 77% of all subscribers are in addressable systems.

CABLE INDUSTRY

(in millions)	89	88	87	86	85
TV Households	90.2	88.6	87.4	85.9	84.9
Homes Passed	80.3	77.2	73.1	69.4	64.7
Basic Subscribers	49.4	45.7	42.6	39.7	36.7
Pay Units	41.9	38.8	34.8	32.1	30.6

Source: Paul Kagan Associates, Inc.



Time Warner Cable is enhancing its systems through the use of fiber optic "backbones" to bring even more channels, clearer pictures, and greater reliability.

In Rochester, N.Y., ATC launched a test: WGRC, the company's first independent cable station.

Strong programming attracts and retains customers. New services added in 1989 included Turner Network Television, HBO's The Comedy Channel, and regional sports networks.

Subscriber satisfaction and customer service are a critical part of Time Warner Cable's strategy for improving operating results.

ATC and Warner Cable continued their commitment to customer service in 1989, concentrating on advanced training of customer service representatives, technicians, and installers. Our customer service standards are among the highest in the industry.

Time Warner Cable supports local community service activities such as:

- Muscular Dystrophy Association
- Time To Read, volunteer literacy program
- Holiday Food Harvest, aiding the homeless
- Make a Difference Foundation, supporting drug prevention
- Society to Prevent Blindness

Time Warner owns 18% of Turner Broadcasting System.



Programming-HBO

- According to A.C. Nielsen, more than 80% of subscribers use HBO at least once a week.
- Both HBO and Cinemax continue to average more new film titles per month than any other national pay service.

ALL-TIME
HIGHS
NEW

Pro Forma (in millions)	1989	1988
Revenues	\$1,177	\$1,122
EBITDA	\$ 166	\$ 118

HBO: Oldest and largest pay-television service in the U.S.

KEY TO SUCCESS

PROGRAMMING



Ben Kingsley in "Murderers Among Us"

1989 Top Movies	Original Films	Sports	Comedy	Special/Other
CROCODILE DUNDEE II	MURDERERS AMONG US: THE SIMON WIESENTHAL STORY	CHAMPIONSHIP BOXING	BILLY CRYSTAL: MIDNIGHT TRAIN TO MOSCOW	JFK: IN HIS OWN WORDS
DIE HARD	DEAD MAN OUT	WIMBLEDON TENNIS	THE KIDS IN THE HALL	CIRQUE DU SOLEIL
THE LAST EMPEROR	GLORY, GLORY	INSIDE THE NFL	COMIC RELIEF III	ENCYCLOPEDIA
COMING TO AMERICA	PERFECT WITNESS		NOT NECESSARILY THE NEWS	COMMON THREADS: STORIES FROM THE QUILT
FULL METAL JACKET	RED KING, WHITE KNIGHT		ONE NIGHT STAND	CRACK USA: COUNTY UNDER SEIGE
BIG	TAILSPIN			
BEETLEJUICE	THIRD DEGREE BURN			
MOONSTRUCK				
WALL STREET				
A FISH CALLED WANDA				

95%

HBO 1979



65%

HBO 1989

Original Movies

2 Academy Award Nominations

31 Aces

7 Emmys

HBO offers more than 60 films each month.

HBO's high quality programming mix sets it apart. This mix has changed dramatically over the last decade. The increase in original programming is well received by viewers and creates additional sources of revenue in ancillary markets.

currently has more than 325,000 subscribers.

Top-notch talent in 1990 HBO originals will include stars such as Melanie Griffith, James Woods, Molly Ringwald and Beau Bridges, directors Richard Donner and Ken Russell, and producers Joel Silver and David Brown.

HBO direct-to-the-home business

was launched in 1989, is now carried on more than 150 cable systems.

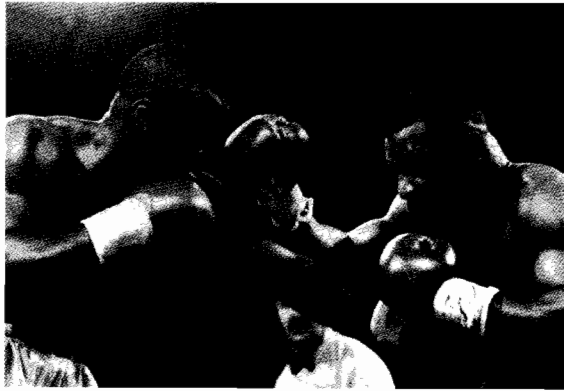
SELECCIONES, HBO's Spanish-language audio option, which

Cinemax—
 one of the fastest-growing
 24 hour pay-TV services
 whose mix of movies—the
 most titles of any pay-TV
 service—and original music
 and comedy programming is
 directed at young adults.

- Leading advertiser for the cable industry, benefiting basic cable as well
- HBO direct-marketing campaigns typically reach 90% of all U.S. TV households three times a year.
- 130 million direct-mail pieces sent each year
- National image advertising campaign in 1990

LARGEST IN THE U.S.

Mike Tyson vs. Buster Douglas



HBO now offered in approximately 1/2 of all accessible hotel rooms in the U.S.

Subscribers*	89	88	87	86	85
HBO	17.3	17.0	15.9	15.0	14.6
Cinemax	6.4	6.0	5.1	4.2	3.7
Total Subscribers	23.7	23.0	21.0	19.2	18.3

* in millions

Home Box Office, Inc., is expanding into the fast-growing basic cable programming business.

The Comedy Channel

- Launched in mid-November
- HBO's newest entry into the thriving, advertiser-supported basic cable business
- Commitments to carry on cable systems serving 15 million subscribers

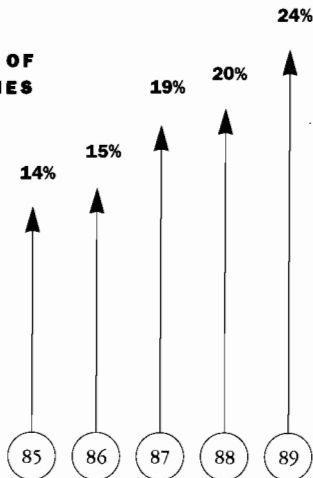
Movietime

- 45% ownership
- Now managed by HBO
- Basic cable programming being expanded to cover the entire spectrum of entertainment
- 27% growth in subscribers in 1989

Black Entertainment Television

- 16% ownership

BASIC CABLE SHARE OF VIEWING IN CABLE HOMES



Source: A.C. Nielsen



Billy Crystal

Cable is now available in 55% of U.S. homes.

Books

Pro Forma* (in millions)	1989	1988
Revenues	\$1,148	\$1,030
EBITDA	\$ (23)	\$ 149

* Includes 100% of the operating results of Warner Communications Inc. See Note 2 on page 40. Sale of Scott, Foresman resulted in a \$175 million pretax loss in 1989.

BOOKS DIRECT

Time Inc. Books Direct—
one of the largest
direct marketers.
Sold more than 45 million
books in 1989.
Customer base: 6 million.

- Quality Paperback Book Club was again the revenue growth leader for 1989 among our 8 clubs.
- *Little People, Big Books*, 1989 series launch
- International revenues accounted for 1/3 of total Time-Life Book revenues.
- One of the largest direct marketers in the Pacific Rim

Time-Life Entertainment:

- Music and videocassette continuity series
- Standouts: *James Bond* video series and *The Rock and Roll Era* music series



Mysteries Of The Unknown

Warner Publisher Services, leading U.S. distributor of 400 magazines and 90 book publishers

TIME WARNER TRADE BOOKS

	1989 Best-Sellers	1990 Major Releases
Little, Brown & Company 	THE NIGHT OF THE MARY KAY COMMANDOS by Berke Breathed FIND WALDO NOW by Martin Handford	VINELAND by Thomas Pynchon MASQUERADE by Janet Dailey
Warner Books 	SANDS OF TIME by Sidney Sheldon LEADERSHIP SECRETS OF ATTILA THE HUN by Wess Roberts, Ph.D.	THE GOLD COAST By Nelson de Mille The Sequel to GONE WITH THE WIND by Alexandra Ripley



OPPORTUNITIES FOR THE '90s

- New Club in 1990: Children's Book-of-the-Month Club
- Acquired Books for Children, the largest quality hardback children's book club in Great Britain
- *Sports Illustrated For Kids* books—1990 launch
- **Building upon direct marketing expertise**
- Developing book concepts with Looney Tune and Tiny Toon characters for Time-Life Books



Waldo

TIME INC. BOOKS DIRECT

	1989 Best-Sellers	1990 Major Releases
Book-of-the-Month Club 	CLEAR AND PRESENT DANGER By Tom Clancy THE WAY TO COOK By Julia Child THE DARK HALF By Stephen King	THE BURDEN OF PROOF By Scott Turow THE STEPHEN KING LIBRARY VINELAND By Thomas Pynchon
Time-Life Books 	MYSTERIES OF THE UNKNOWN Series	THE TIME-LIFE LIBRARY OF CURIOUS AND UNUSUAL FACTS

Little, Brown and Warner Books together create

greater efficiencies and increased market presence.

Oxmoor House
book-publishing arm of Southern Progress

- *Southern Living Annual Recipes*
- *Christmas With Southern Living*



THOMAS PYNCHON

TRADE BOOKS

Mad Magazine—most popular satirical magazine

American Lawyer—publisher of legal periodicals

WHAT

Consolidated Balance Sheet

December 31, (dollars in millions, except per share amounts)	1989	1988
Assets		
Current assets:		
Cash and equivalents	\$ 234	\$ 121
Receivables, less allowances for doubtful receivables and returns of \$766 in 1989 and \$161 in 1988	2,005	506
Inventories	1,006	489
Other current assets	589	175
Total current assets	3,834	1,291
Noncurrent receivables	435	176
Noncurrent inventories	1,876	241
Investments	1,455	851
Land and buildings	701	264
Cable television equipment	2,362	1,399
Furniture, fixtures and other equipment	975	572
	4,038	2,235
Less accumulated depreciation and amortization	(1,094)	(836)
Property, plant and equipment, net	2,944	1,399
Excess of cost over net assets acquired	9,044	821
Cable television franchises	3,281	174
Music copyrights, record catalogues and other assets	1,922	50
Total assets	\$24,791	\$5,003

See accompanying notes to consolidated financial statements.

	1989	1988
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 3,137	\$ 866
Debt due within one year	54	15
Accrued income taxes	79	24
Total current liabilities	3,270	905
Long-term debt	10,838	1,485
Deferred income taxes	2,546	563
Unearned portion of paid subscriptions	449	424
Other liabilities	932	238
Shareholders' equity:		
Preferred stock, \$1 par value, 25 million shares authorized, 5.6 million shares issued, \$5.584 billion liquidation preference	6	—
Common stock, \$1 par value, 200 million shares authorized, 70.4 million shares issued in 1989 and 63.4 million issued in 1988	70	63
Paid in capital	6,643	267
Retained earnings	1,299	1,621
Treasury stock, at cost, 13 million common shares in 1989 and 6.7 million in 1988	(1,262)	(563)
Total shareholders' equity	6,756	1,388
Total liabilities and shareholders' equity	\$24,791	\$5,003

Consolidated Statement of Operations

Years ended December 31. (millions, except per share amounts)	Historical			Pro Forma (Unaudited)	
	1989	1988	1987	1989	1988
Revenues	\$7,642	\$4,507	\$4,193	\$10,779	\$ 9,103
Costs and expenses:					
Cost of revenues*	4,582	2,219	2,082	7,237	6,349
Division selling, general and administrative*	2,212	1,624	1,471	2,707	2,389
Interest and other, net	1,068	100	73	1,200	988
Corporate expenses	85	42	56	126	92
Gain on investments, net	(63)	—	—	(63)	(57)
Total costs and expenses	7,884	3,985	3,682	11,207	9,761
Income (loss) before income taxes	(242)	522	511	(428)	(658)
Provision (benefit) for income taxes	14	240	240	4	(76)
Net income (loss)	(256)	282	271	(432)	(582)
Less preferred dividend requirements	—	—	—	555	555
Net income (loss) applicable to common shares	\$ (256)	\$ 282	\$ 271	\$ (987)	\$(1,137)
Earnings (loss) per common share	\$ (4.34)	\$ 4.88	\$ 4.53	\$ (17.29)	\$(19.84)
Average shares outstanding	59.0	57.8	59.8	57.1	57.3
<i>*Includes depreciation and amortization, including amortization relating to the purchase of WCI, of:</i>	<i>\$531</i>	<i>\$223</i>	<i>\$202</i>	<i>\$1,082</i>	<i>\$966</i>

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Years ended December 31, (millions)	1989	1988	1987
Operations:			
Net income (loss)	\$ (256)	\$ 282	\$ 271
Adjustments for noncash and nonoperating items:			
Depreciation and amortization	531	223	202
Amortization of Bridge Facilities fees	327	—	—
Loss (gain) on asset dispositions	112	29	(43)
Equity-method accounting	36	26	24
Changes in related balance sheet accounts:			
Receivables	(455)	(13)	(56)
Inventories	(152)	(44)	(48)
Accounts payable and other liabilities	562	27	84
Other balance sheet changes	(5)	(13)	48
Cash provided by operations (a)	700	517	482
Investing Activities:			
Acquisition of WCI (a)(b)	(7,933)	—	—
Investments and other acquisitions (b)	(713)	(500)	(353)
Capital expenditures	(522)	(312)	(260)
Proceeds from dispositions (b)	604	11	88
Cash used by investing activities	(8,564)	(801)	(525)
Financing Activities:			
Increase in debt (c)	8,071	366	174
Time Warner dividends paid	(57)	(57)	(59)
WCI dividends paid	(45)	—	—
Purchase of common stock	(16)	(158)	(268)
Other	24	17	16
Cash provided (used) by financing activities	7,977	168	(137)
Increase (decrease) in cash and equivalents (d)	\$ 113	\$(116)	\$(180)

(a) Cash payments of \$641 million, \$107 million and \$98 million were made for interest and \$145 million, \$200 million and \$150 million were made for income taxes during 1989, 1988 and 1987, respectively. In addition, the \$7.933 billion cash cost to acquire WCI includes \$348 million of financing fees.

(b) The noncash effects of 1989 acquisitions and dispositions were to increase receivables—\$1.268 billion; inventories—\$2.043 billion; investments—\$864 million; property, plant and equipment—\$1.299 billion; excess of cost over net assets acquired—\$8.422 billion; other assets—\$5.430 billion; debt—\$1.321 billion; other liabilities—\$4.491 billion; and shareholders' equity (Series C Cash Pay Preferred and Series D PIK Preferred)—\$5.584 billion; and with respect to dispositions, to increase the net loss—\$112 million. The cash cost to acquire WCI of \$7.933 billion is reflected net of \$358 million of WCI cash at acquisition.

(c) Borrowings were \$17.071 billion, \$378 million and \$655 million in 1989, 1988 and 1987, respectively; and repayments were \$9 billion, \$12 million and \$481 million, respectively.

(d) Cash equivalents consist of commercial paper and other investments that are readily convertible into cash, and generally have original maturities of three months or less.

See accompanying notes to consolidated financial statements.

Consolidated Statement of Shareholders' Equity

(millions, except per share amounts)	Preferred Stock	Common Stock	Paid In Capital	Retained Earnings	Treasury Stock	Total
Balance at December 31, 1986 as previously reported	\$—	\$63	\$ 252	\$1,219	\$ (232)	\$1,302
Cumulative effect of the change in method of accounting for income taxes				15		15
Balance at December 31, 1986 as restated	—	63	252	1,234	(232)	1,317
Net income				271		271
Dividends paid on common stock—\$1 per share				(59)		(59)
Common stock purchased					(268)	(268)
Stock option, restricted stock and benefit plan transactions			4	(30)	47	21
Other				2		2
Balance at December 31, 1987	—	63	256	1,418	(453)	1,284
Net income				282		282
Dividends paid on common stock—\$1 per share				(57)		(57)
Common stock purchased					(158)	(158)
Stock option, restricted stock and benefit plan transactions			11	(22)	48	37
Balance at December 31, 1988	—	63	267	1,621	(563)	1,388
Net loss				(256)		(256)
Dividends paid on common stock—\$1 per share				(57)		(57)
Series C and D preferred stock issued to acquire WCI	6		5,578			5,584
Time Warner Exchange Shares issued		7	748			755
Common stock purchased and Time Warner Exchange Shares owned by WCI					(771)	(771)
Stock option, restricted stock and benefit plan transactions			50	(19)	72	103
Other				10		10
Balance at December 31, 1989	\$ 6	\$70	\$6,643	\$1,299	\$(1,262)	\$6,756

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of Time Warner Inc. and its subsidiaries ("Time Warner"). Companies 20% to 50% owned are generally accounted for by the equity method.

As more fully described in Note 2, Time Warner has accounted for the acquisition of a 59.3% common stock interest in Warner Communications Inc. ("WCI") as of July 31, 1989 and for the acquisition on January 10, 1990 of the remaining capital stock of WCI as of December 31, 1989 using the purchase method of accounting. Accordingly, the Time Warner historical operating results for 1989 include the operating results of WCI for the five months ended December 31, 1989, after deducting the WCI minority interest's 40.7% share, and the Time Warner balance sheet at December 31, 1989 reflects the issuance of securities of Time Warner and of BHC Communications, Inc. ("BHC") on January 10, 1990 to acquire the remaining capital stock of WCI and the payment of certain Merger-related costs. The historical operating results and balance sheet of Time Warner presented in the accompanying financial statements are supplemented by pro forma operating results for 1989 and 1988 that give effect to the acquisition of 100% of WCI as if it had occurred at the beginning of each year.

The accompanying financial statements are restated for the retroactive application of the change in the method of accounting for income taxes prescribed by Financial Accounting Standards Board Statement No. 96, "Accounting for Income Taxes," ("FAS 96"), which Time Warner adopted in 1989. The effect of the change on operating results for 1989, 1988 and 1987 was not material.

A reclassification of certain amounts presented in prior year financial statements has been made to conform to the 1989 presentation.

Film Revenues and Costs

Theatrical films are produced by the Filmed Entertainment division for exhibition in theatres and on home video devices and licensed pay television telecasts (the primary markets) during a period generally one year from the initial release date, and on licensed telecasts by network and independent television stations (the secondary markets) during a period generally two to seven years from the initial release date. Television films are produced for exhibition initially on televi-

sion, often pursuant to a contract of sale, and include features, pilots, series and mini-series. The more successful television films produced for initial exhibition on networks or on a group of independent television stations (the primary markets) often are subsequently licensed to other television stations or networks (the secondary markets).

Revenue from the theatrical distribution of films is recognized as the films are exhibited. Revenue from television films produced by the Filmed Entertainment division is recognized when the films are first available for telecasting by the licensee, provided certain conditions of sale have been met. Home video revenue, less a provision for returns, is recognized when the home videos are sold.

Film inventories are stated at the lower of unamortized cost or estimated realizable value, generally using the individual film forecast method. The cost of a film includes the direct costs of production, an allocation of studio production overhead, and interest capitalized during the production period. Film cost is allocated to the theatrical and various other markets in which the film is to be exhibited based on the proportion that the revenues expected to be earned from each market bear to management's estimate of the total revenues to be earned. Similarly, film cost is amortized, and the related participations and residuals are accrued, based on the proportion that revenues earned in the accounting period bear to management's estimate of the total revenue to be earned. Such estimates are revised periodically and losses, if any, are provided for in full. A portion of the cost of the WCI acquisition has been allocated to the inventories of the Filmed Entertainment division based upon estimated revenues from certain films less related costs of distribution and a reasonable profit allowance for the selling effort.

Current film inventories include, net of amortization, (1) the cost of completed theatrical films that has been allocated to the primary markets (2) the cost of television films in production pursuant to a contract of sale, and (3) the cost of film libraries purchased for the home video market. Noncurrent film inventories include, net of amortization, (1) the cost of theatrical films in production and (2) the cost of completed theatrical and television films that has been allocated to the secondary markets.

Programming Costs

The Programming-HBO division acquires rights to exhibit theatrical films and other programming product on its subscription pay television services during one or more availability periods from a variety of producers. The cost to acquire the rights ("programming costs") is recorded generally when the product is initially available for exhibition, allocated to the appropriate availability periods and amortized as the product is exhibited.

Other Inventories

Inventories of magazines, books, records, tapes and compact discs are stated at the lower of cost or estimated realizable value. Cost is determined using first-in, first-out ("FIFO"); last-in, first-out ("LIFO") and average cost methods. In accordance with industry practice, certain products are sold to customers with the right to return unsold items. Revenues from such sales represent gross sales less a provision for future returns. Returned goods included in inventory are valued at estimated realizable value but not in excess of cost.

Unearned Portion of Paid Subscriptions

Revenues from paid magazine subscriptions are deferred until the magazines are delivered to subscribers. Upon each delivery, a proportionate share of the gross subscription price is included in revenues.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is provided generally on the straight-line method over useful lives ranging up to fifteen years for cable television equipment, up to twenty-five years for buildings and improvements and up to fifteen years for furniture, fixtures and other equipment.

Intangible Assets

The costs to acquire cable television franchises, music copyrights, recording artist contracts, record catalogues and other identifiable intangible assets, and the excess of cost over net assets acquired are being amortized over periods up to forty years using the straight-line method. Accumulated amortization of intangible assets at December 31, 1989 and 1988 amounted to \$320 million and \$172 million, respectively.

Earnings (Loss) Per Share

Historical loss per share for 1989 is based upon average common shares outstanding during the year after eliminating Time Warner's 59.3% interest in its common shares owned by WCI for the five months ended December 31, 1989 (see Note 2). Historical earnings per share for 1988 and 1987 are based upon average common shares outstanding each year plus the dilutive effect of outstanding stock options.

Pro forma loss per share for 1989 and 1988 are based upon average common shares outstanding each year after eliminating 100% of

common shares owned by WCI for the five months ended December 31, 1989. Preferred dividend requirements reflect the conversion of the Series BB preferred stock and, accordingly, are based on \$3.183 billion liquidation value of the Series C Cash Pay Preferred and \$2.401 billion liquidation value of Series D PIK Preferred outstanding as of the beginning of each year.

2. Acquisition of WCI

Pursuant to a merger agreement and related share exchange agreement, Time Warner acquired 17.3 million shares of WCI common stock on June 16, 1989 in exchange for issuing 7 million Time Warner common shares to WCI (the "Time Warner Exchange Shares"), and completed a cash tender offer (the "Offer") for an additional 100 million shares of WCI common stock at a price of \$70 per share on July 24, 1989. As a result of these transactions, Time Warner owned 117.3 million shares or 59.3% of WCI's then outstanding common stock. On January 10, 1990, Time Warner acquired the remaining capital stock of WCI in a merger (the "Merger") in which 79.1 million remaining shares of WCI common stock were exchanged for 2.844 million shares of Series C Cash Pay Preferred (56.88 million Cash Pay Preferred Depositary Shares, see Note 9), 2.145 million shares of Series D PIK Preferred (42.893 million PIK Preferred Depositary Shares) and 12 million shares of Class A common stock of BHC ("BHC Class A Common") owned by WCI; and 5.216 million shares of WCI Series B preferred stock were exchanged for 5.216 million shares of Series BB preferred stock. On February 16, 1990, the Series BB preferred stock was converted into 339,112 shares of Series C Cash Pay Preferred (6.782 million Cash Pay Preferred Depositary Shares) and 255,704 shares of Series D PIK Preferred (5.114 million PIK Preferred Depositary Shares).

The cost to acquire WCI, exclusive of the Time Warner Exchange Shares, amounted to approximately \$14 billion, and was allocated to the net assets acquired according to their respective fair values. A deferred income tax liability of \$1.8 billion was recorded in respect of the amount by which the fair value exceeded the underlying tax basis of the identifiable assets acquired. The acquisition was financed by \$8.3 billion of long-term debt and the Time Warner and BHC securities issued in the Merger.

On an historical basis, the acquisition of the initial 59.3% common stock interest in WCI was accounted for as of July 31, 1989

using the purchase method; accordingly, Time Warner's historical operating results for 1989 include the operating results of WCI for the five months ended December 31, 1989, after deducting the WCI minority interest's 40.7% share. The acquisition of the remaining capital stock of WCI was accounted for as of year end; accordingly, the Time Warner balance sheet at December 31, 1989 reflects the securities issued in the Merger on January 10, 1990 and the payment of certain Merger-related costs.

The Time Warner historical operating results in the accompanying statement of operations and in the business segment information presented in Note 13 are supplemented with pro forma operating results for 1989 and 1988 that give effect to the acquisition of 100% of WCI as if it had occurred at the beginning of each year. The pro forma results are presented for informational purposes only and are not necessarily indicative of the operating results that would have occurred if the acquisition had been consummated at the dates indicated, nor are they indicative of future operating results.

The pro forma results exclude (a) amortization of the Bridge Facilities fees (see Note 7), (b) Offer and Merger transaction costs, (c) WCI stock equivalent compensation expense and (d) inter-company transactions between Time Warner and WCI. Pro forma interest expense includes interest at 11% per annum for 1989 and 9% per annum for 1988 on the \$8.3 billion of long-term debt incurred to finance the acquisition, based upon the terms of the Permanent Financing. Pro forma adjustments to income tax expense reflect the tax effects of the pretax adjustments and assume that Time Warner and WCI filed consolidated tax returns during the periods presented.

3. Cable

Time Warner's interests in cable television systems at December 31, 1989 are held through wholly-owned Warner Cable and 82%-owned American Television and Communications Corporation ("ATC"), which together own and operate systems serving 4.96 million basic subscribers and hold investments in cable equity affiliates (generally 50% owned) that serve an additional 1.18 million basic subscribers.

ATC and Warner Cable purchased cable systems in August 1989 serving approximately 207,000 subscribers for \$532 million in cash.

The acquisitions have been accounted for using the purchase method; accordingly, Time Warner's operating results include the operating results of the acquired systems only for the four months ended December 31, 1989. If the acquisitions had occurred at the beginning of 1988, the effect on the Time Warner pro forma 1988 and 1989 operating results would not be material.

ATC acquired an additional 51% common stock interest in Memphis CATV, Inc. ("Memphis") in 1988 for \$153 million and thereby increased its ownership to substantially 100%. Memphis was consolidated in 1989 and accounted for by the equity method in 1988 and 1987.

Time Warner also has investments in cable programming companies, including an 18.1% interest (8.4% voting interest) in Turner Broadcasting System, Inc. ("TBS") that was carried at a cost of \$380 million and had a market value of \$787 million at December 31, 1989. The TBS investment is accounted for using the cost method.

4. Other Acquisitions and Dispositions

Scott, Foresman and Company, a publisher of educational textbooks, ("Scott, Foresman") was sold in December 1989 for \$455 million, consisting of cash and the assumption by the purchaser of \$48 million of debt. A pretax loss of \$175 million (\$120 million after related tax benefits) was recorded on the sale. Scott, Foresman contributed revenues of \$265 million, \$247 million and \$228 million, and operating income of \$42 million, \$44 million and \$38 million to the Books division in 1989, 1988 and 1987, respectively.

A \$63 million net gain on investments (\$42 million after tax) was recorded in December 1989 primarily as a result of the sale of 3.125 million shares of Columbia Pictures Entertainment, Inc. common stock.

A 50% interest in Whittle Communications L.P. ("Whittle") was acquired in December 1988 for an initial payment of \$185 million. Potential additional payments are conditioned on Whittle's achieving specified income levels between 1989 and 1993. In addition, Time Warner has an option to increase its ownership beginning in 1993. Whittle specializes in creating and distributing specifically targeted advertising-supported magazines, posters and other media products.

5. Inventories

Inventories consist of:

December 31, (millions)	1989		1988	
	Current	Noncurrent	Current	Noncurrent
Film costs:				
Released, less amortization	\$ 420	\$ 346	\$ —	\$ —
Completed and not released	96	10	—	—
In process	8	189	—	—
Library, less amortization	—	1,067	—	—
Programming costs, less amortization	209	264	190	241
Magazines, books and recorded music	273	—	299	—
Total	\$1,006	\$1,876	\$489	\$241

The cost of the WCI acquisition allocated to films that have been exhibited at least once in both the primary and secondary markets (the "Library") is being amortized on a straight-line basis over twenty years. The cost allocated to other films is being amortized generally using the individual film forecast method. Excluding the Library, the unamortized cost of released films at December 31, 1989 amounted to \$766 million, more than 90% of which is expected to be amortized during the next three years.

Excluding the effects of accounting for the acquisition of WCI, the total cost incurred by the Filmed Entertainment division in the production of theatrical and television films during 1989 and 1988 on a pro forma basis amounted to \$1.341 billion and \$1.089 billion, respectively; and the total cost amortized amounted to \$1.335 billion and \$1.038 billion, respectively.

6. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of:

December 31, (millions)	1989	1988
Accounts payable	\$ 713	\$369
Participations, royalties and programming costs	1,026	122
Accrued compensation	267	89
Other accrued expenses	978	254
Deferred revenues	153	32
Total	\$3,137	\$866

7. Long-Term Debt

Long-term debt consists of:

December 31, (millions)	1989	1988
Time Warner Permanent Credit Agreement, weighted average interest rate of 9.3%	\$ 7,150	\$ —
Commercial paper, weighted average interest rate of 9.7% and 9.1%	2,131	560
Time Warner 8 ³ / ₄ %, 9 ¹ / ₂ %, 9 ⁷ / ₈ % and 10 ³ / ₈ % notes and debentures	550	557
WCI 7 ³ / ₈ %, 9 ¹ / ₈ %, 10 ⁷ / ₈ % and 11 ¹ / ₂ % subordinated debentures	400	—
ATC 8 ³ / ₈ % and 9 ³ / ₄ % notes and debentures	300	300
Lorimar 6% and 11% subordinated debentures	213	—
Other indebtedness	94	68
Total	\$10,838	\$1,485

Time Warner's purchase of WCI common stock in the Offer was financed by \$5 billion of loans pursuant to several six-month agreements each among Time Warner and a group of commercial banks (the "Senior Bridge Loans") and \$2 billion of senior subordinated loans from two investment banks (the "Subordinated Bridge Loans"). The Subordinated Bridge Loans were repaid on October 11, 1989 with the proceeds from an additional senior bridge loan from a group of commercial banks (together with the Senior Bridge Loans and Subordinated Bridge Loans, the "Bridge Facilities"). The weighted average interest rate on the Bridge Facilities was 12.4% for the five months ended December 31, 1989.

Effective as of January 10, 1990, unsecured credit agreements with a group of commercial banks provide Time Warner and ATC with up to \$10.8 billion of financing, \$7.1 billion of which was used to repay outstanding indebtedness under the Bridge Facilities and to pay certain Merger-related obligations (respectively, the "Time Warner Permanent Credit Agreement" and "ATC Permanent Credit Agreement," and together, the "Permanent Financing"). The remaining unused credit under the Permanent Financing is available for general corporate purposes and to support commercial paper borrowings and letters of credit. The Time Warner Permanent Credit Agreement provides initially for borrowings up to \$9.8 billion and consists of a \$5.5 billion revolving credit facility through March 31, 1994 with available credit reducing at that date and at each anniversary thereof by \$1.375 billion through final maturity on March 31, 1997, and a \$4.3 billion term loan due, at Time Warner's option, on March 31, 1992, or, upon payment of a $\frac{3}{8}$ % extension fee, on March 31, 1993. The ATC Permanent Credit Agreement provides for borrowings up to \$1 billion through maturity on March 31, 1993. Outstanding borrowings under the Permanent Financing bear interest, at the borrower's option, at either the prime rate, or at a rate based upon the LIBOR or a CD rate plus a margin, which margin for Time Warner's LIBOR or CD borrowings will vary depending on a ratio of debt to pretax cash flow as defined in the Time Warner Permanent Credit Agreement.

Under the terms of the Permanent Financing, Time Warner and ATC are limited as to, among other things: (1) certain additional subsidiary debt, (2) certain acquisitions and investments, and (3) financial ratios of debt to pretax cash flow, pretax cash flow to cash interest expense, and after-tax cash flow less capital expenditures to cash interest expense plus cash dividends, all as defined in the agreements.

Through March 1, 1990, Time Warner has entered into interest-rate swap agreements whereby Time Warner will pay to various financial institutions interest on \$2.9 billion nominal amount of indebtedness resulting in a weighted average fixed rate of 9.8% for periods ranging principally from two to seven years. In exchange, the financial institutions will pay to Time Warner interest on the same nominal amount of indebtedness at rates which vary depending upon the three-month LIBOR rate.

Commercial paper outstanding at December 31, 1989 consisted of \$575 million borrowed by Time Warner, \$984 million borrowed by WCI and \$572 million borrowed by ATC; and at December 31, 1988 consisted of \$148 million borrowed by Time Warner and \$412 million borrowed by ATC. The WCI commercial paper program has been terminated. Maturing commercial paper of WCI will be refinanced with funds from Time Warner.

Maturities of the publicly-held debentures and notes, including mandatory sinking fund requirements, are as follows (in millions):

1991-\$16; 1992-\$51; 1993-\$166; 1994-\$144; 1995 to 1999-\$388; 2000 to 2004-\$281; 2005 to 2009-\$208; 2010 to 2017-\$198.

Certain debentures and notes are redeemable in whole or in part prior to their stated maturities, subject to certain limitations and premiums. The Lorimar 6% subordinated debentures (\$65 million principal amount outstanding at December 31, 1989) may be redeemed at the option of the holders at 120.231% of their principal amount on August 18, 1993 and each \$95.24 of principal amount is convertible into .71888 of a Cash Pay Preferred Depositary Share, .54210 of a PIK Preferred Depositary Share and .15166 of a share of BHC Class A Common.

The WCI subordinated debentures have been guaranteed by Time Warner on a subordinated basis. The ATC and Lorimar debentures and notes are nonrecourse to Time Warner and its other subsidiaries.

Interest expense on an historical basis in 1989, 1988 and 1987 amounted to \$965 million, \$111 million and \$99 million, respectively. Interest expense on a pro forma basis in 1989 and 1988 amounted to \$1.282 billion and \$1.028 billion, respectively.

8. Income Taxes

Domestic and foreign pretax income (loss) are as follows:

Years ended December 31, (millions)	1989	1988	1987
Domestic	\$(330)	\$508	\$499
Foreign	88	14	12
Total pretax income (loss)	\$(242)	\$522	\$511

Details of the current and deferred income taxes (benefits) provided are as follows:

Years ended December 31, (millions)	1989	1988	1987
Federal:			
Current	\$(112)	\$106	\$113
Deferred	(7)	54	69
Foreign:			
Current (a)	70	14	4
Deferred	2	—	—
State and local:			
Current	36	55	42
Deferred	25	11	12
Total taxes provided	\$ 14	\$240	\$240

(a) Includes foreign withholding taxes of \$22 million in 1989, \$3 million in 1988 and \$2 million in 1987.

The differences between the income tax or benefit expected at the federal statutory income tax rate and the total taxes provided are as follows:

Years ended December 31, (millions)	1989	1988	1987
Tax (benefit) on income (loss) at federal statutory rate	\$ (82)	\$ 177	\$ 204
State and local taxes, net	40	44	32
Foreign income taxed at different rates, net of U.S. foreign tax credits	20	6	1
Nondeductible expenses	25	9	21
Minority interest	30	5	4
Domestic losses carried back to years with higher tax rates	(13)	—	—
Effect of tax rate change	—	—	(24)
Other	(6)	(1)	2
Total taxes provided	\$ 14	\$ 240	\$ 240

No U.S. income or foreign withholding taxes have been recorded on permanently reinvested earnings of foreign subsidiaries aggregating approximately \$240 million at December 31, 1989. However, if such earnings were to be repatriated, it is expected that any additional U.S. income tax would be offset by the utilization of the accompanying foreign tax credits.

Deferred income tax liabilities have been recorded on the amounts by which the financial statement carrying value of certain assets exceeds their underlying tax basis, principally as a result of differences in the financial statement and tax methods of accounting for acquisitions, dispositions, depreciation and amortization, and film revenues and expenses.

Substantially all of Time Warner's federal income tax carryforwards were acquired in the acquisition of WCI and at December 31, 1989 consisted principally of \$214 million of net operating losses that expire from 1997 to 2003 and \$292 million of investment tax credits that expire from 1990 to 2004. The future realization of the carryforwards are subject to certain limitations under federal income tax laws. Time Warner will include WCI in its consolidated federal income tax return beginning in 1990. For financial statement purposes, the tax effect of acquired carryforwards has been accounted for as a reduction of deferred income tax liabilities and of the excess of cost over net assets acquired.

9. Capital Shares

Time Warner's Series C 8³/₄% Convertible Exchangeable Preferred Stock ("Series C Cash Pay Preferred"), Series D 11% Convertible Exchangeable Preferred Stock ("Series D PIK Preferred") and Series E Participating Preferred Stock are each represented by depositary shares ("Cash Pay Preferred Depositary Shares," "PIK Preferred Depositary Shares," and "Participating Preferred Depositary Shares," respectively) which entitle the holders thereof, proportionately, to all the rights and preferences of the underlying preferred stock as are described below.

Each share of Series C Cash Pay Preferred is (1) represented by 20 Cash Pay Preferred Depositary Shares, (2) entitled to a liquidation preference of \$1,000 (\$50 per Cash Pay Preferred Depositary Share), (3) entitled to earn dividends at a rate of 8³/₄% per annum of its \$1,000 liquidation value (\$50 in the case of each Cash Pay Preferred Depositary Share), payable quarterly in cash, (4) convertible into (a) subsequent to the receipt of any stockholder approval required by law or applicable stock exchange rules, five shares of Time Warner common stock (.25 of a share per Cash Pay Preferred Depositary Share), which is equivalent to a conversion price based on liquidation value of \$200 per share, and (b) prior thereto, 1.0526 shares of Series E Participating Preferred Stock (.05263 of a share per Cash Pay Preferred Depositary Share) or 5.263 Participating Preferred Depositary Shares, (5) exchangeable, at Time Warner's option, at any time after January 10, 1993, for \$1,000 principal amount of 8³/₄% Convertible Subordinated Debentures (\$50 principal amount per Cash Pay Preferred Depositary Share), (6) not entitled to vote, except in certain circumstances, (7) redeemable, in whole or in part, at Time Warner's option, (a) prior to January 10, 1993, only if the average closing sales price of Time Warner common stock exceeds \$280 for at least 20 trading days in any 30 consecutive trading day period and (b) thereafter, at any time, in either case at a per share price equal to the liquidation value plus a redemption premium initially equal to 8³/₄% of the liquidation value, and thereafter declining ratably over ten years to zero, and (8) entitled to certain antidilution and risk-event protection.

Each share of Series D PIK Preferred is (1) represented by 20 PIK Preferred Depositary Shares, (2) entitled to a liquidation preference of \$1,000 (\$50 per PIK Preferred Depositary Share), (3) entitled to earn dividends at a rate of 11% per annum of its \$1,000 liquidation value (\$50 in the case of each PIK Preferred Depositary Share), payable quarterly (a) in additional shares of Series D PIK Preferred (entitling holders of PIK Preferred Depositary Shares to additional PIK Preferred Depositary Shares) until and including the dividend

payment date immediately following January 10, 1993, (b) at the option of Time Warner, in cash or additional shares of Series D PIK Preferred after such dividend payment date until and including the dividend payment date immediately following January 10, 1994 and (c) in cash only thereafter, (4) convertible, at the option of the holder at any time, into (a) subsequent to the receipt of any stockholder approval required by law or applicable stock exchange rules, 4,444 shares of Time Warner common stock (.2222 of a share per PIK Preferred Depositary Share), which is equivalent to a conversion price based on liquidation value of \$225 per share, and (b) prior thereto, .9356 of a share of Series E Participating Preferred Stock (.04678 of a share per PIK Preferred Depositary Share) or 4,678 Participating Preferred Depositary Shares, (5) exchangeable, at Time Warner's option, at any time after January 10, 1993 for \$1,000 principal amount of 11% Convertible Subordinated Debentures (\$50 principal amount per PIK Preferred Depositary Share), (6) not entitled to vote, except in certain circumstances, (7) subject to redemption, in whole or in part, at Time Warner's option, (a) prior to January 10, 1993 only if the average closing sales price of Time Warner common stock exceeds \$315 for at least 20 trading days in any 30 consecutive trading day period and (b) thereafter, at any time, in either case at a per share price equal to the liquidation value plus a redemption premium initially equal to 11% of the liquidation value, and thereafter declining ratably over ten years to zero and (8) entitled to certain antidilution and risk-event protection.

Each share of Series E Participating Preferred Stock is (1) represented by five Participating Preferred Depositary Shares, (2) entitled to a minimum liquidation preference of \$1,000 (\$50 per Participating Preferred Depositary Share), (3) exchangeable at certain times at Time Warner's option into five shares of Time Warner common stock (one share per Participating Preferred Depositary Share), (4) entitled to earn dividends at a rate which is the greater of the rate of dividends paid on Time Warner common stock into which the Series E Participating Preferred Stock (or Participating Preferred Depositary Share) is or would then be exchangeable or an annual rate of \$2.50 per share (\$.50 per Participating Preferred Depositary Share), (5) not entitled to vote, except in certain circumstances, (6) not redeemable and (7) entitled to certain antidilution and risk-event protection.

At December 31, 1989, 14.1 million common shares were reserved for contingent future issuances pursuant to the common stock option and restricted stock plans, and 33 million common shares were reserved for issuance upon the conversion of the Series C Cash Pay Preferred and Series D PIK Preferred and exchange of the Series E Participating Preferred, subject to shareholder approval.

At January 31, 1990, there were approximately 13,500 common stockholders.

10. Stock Option and Restricted Stock Plans

Under various Time Warner plans, options to purchase Time Warner common stock generally have been granted at fair market value at the date of grant, are exercisable ratably over two and one-half to five year vesting periods and expire no later than fifteen years from the date of grant. Pursuant to the Merger agreement, holders of WCI stock options received approximately 4.5 million Time Warner replacement options ("Replacement Options") on January 10, 1990 that vest ratably over three years and expire in ten years. Those holders that surrendered WCI options for a cash payment based on \$72.21 per WCI common share received Replacement Options exercisable at \$150 per share. Holders of the remaining WCI options received Replacement Options exercisable at a price equal to the WCI exercise price divided by .465. A summary of stock option activity under all plans, including 1989 grants subject to the Merger on January 10, 1990, is as follows (in thousands of shares):

	Number of Shares	Price Per Share
Balance at December 31, 1988	2,128	\$18 -- \$116
Granted	9,534	90 -- 150
Exercised	(380)	18 -- 117
Cancelled	(82)	31 -- 138
Balance at December 31, 1989	11,200	\$23 -- \$150
At December 31, 1989:		
Exercisable	1,768	
Available for future grants	2,877	

The above table includes 2.685 million stock options that have been granted and 2.815 million stock options that are available for future grants under the 1989 Stock Incentive Plan, which is subject to shareholder approval.

There were 447,977 options exercised in 1988 at prices ranging from \$15-\$99 per share, and 445,960 options exercised in 1987 at prices ranging from \$13-\$80 per share. There were 1.289 million options exercisable and 1.083 million options available for grant at December 31, 1988.

Certain of the plans also provide, in lieu of granting stock options, for the issuance of restricted stock to key employees. Restricted stock may not be resold by the holder until a vesting period and other conditions have occurred. There were 530,000, 132,000 and 106,000 shares of restricted stock awarded during 1989, 1988 and 1987, respectively.

11. Pension and Other Benefit Plans

Time Warner and its subsidiaries have defined benefit and defined contribution plans covering substantially all employees. The benefits under the defined benefit plans are determined based on formulas that reflect the employees' years of service and compensation levels during their employment period. Time Warner's policy is to fund pension costs in accordance with government regulations.

Pension expense attributable to defined benefit plans includes the following amounts:

Years ended December 31, (millions)	1989	1988	1987
Service cost	\$18	\$12	\$16
Interest cost on projected obligation	28	24	24
Actual return on plan assets	(54)	(26)	(11)
Net amortization and deferral	22	—	(14)
Pension expense	\$14	\$10	\$15

The funded status of defined benefit plans was as follows:

December 31, (millions)	1989	1988
Actuarial present value of:		
Vested benefit obligation	\$280	\$179
Nonvested benefit obligation	11	14
Accumulated benefit obligation	\$291	\$193
Projected benefit obligation	\$407	\$265
Plan assets at fair value	\$418	\$263

The projected benefit obligation of certain plans exceeded the fair value of the related plan assets by \$48 million at December 31, 1989 and \$24 million at December 31, 1988. Plan assets are invested in fixed income and equity securities.

The following assumptions were used in accounting for the defined benefit pension plans:

	1989	1988	1987
Weighted average discount rate	9%	9½%	9¾%
Return on plan assets	10%	10%	10%
Rate of increase in compensation levels	6%	6%	6%

Employees of Time Warner's operations in foreign countries participate to varying degrees in local pension plans, which in the aggregate are not significant.

Time Warner also maintains several defined contribution plans, including employee stock ownership plans, 401(k) plans and profit sharing plans. Contributions to the 401(k) plans are based upon a percentage of the employees' elected contributions. Contributions to the employee stock ownership plans are determined by management, approved by the Board of Directors and can amount to up to 12 percent of the employees' compensation during the plan year. Defined contribution plan expense amounted to \$49 million, \$35 million and \$30 million in 1989, 1988 and 1987, respectively.

12. Commitments and Contingencies

Total rent expense for 1989, 1988 and 1987 amounted to \$154 million, \$125 million and \$117 million, respectively. The minimum rental commitments under noncancellable long-term operating leases for 1990 and thereafter are (in millions): 1990-\$164; 1991-\$146; 1992-\$129; 1993-\$112; 1994-\$109; and after 1994-\$999.

Minimum commitments and guarantees under certain programming, licensing, artists, franchise and other agreements aggregated approximately \$3.5 billion at December 31, 1989 and are payable principally over a five-year period.

Pending legal proceedings not covered by insurance or other indemnity are limited to litigation incidental to the businesses of Time Warner and alleged damages in connection with class action and antitrust lawsuits. In the opinion of counsel and management, the ultimate resolution of these matters will not have a material effect on Time Warner's consolidated financial statements.

13. Segment Information

Information as to Time Warner's operations in different business segments on an historical and a pro forma basis is as set forth below. The historical information reflects the acquisition of the 59.3% common stock interest in WCI as of July 31, 1989 and the acquisition on January 10, 1990 of the remaining capital stock of WCI as of December 31, 1989 using the purchase method of accounting. Accordingly, historical operating results and capital expenditures for

WCI's businesses are included only for the five months ended December 31, 1989; and historical total assets at December 31, 1989 reflect the cost to acquire 100% of WCI at that date. The pro forma operating results and capital expenditures information give effect to the acquisition of 100% of WCI as if it had occurred at the beginning of each year presented; and pro forma total assets at December 31, 1989 and 1988 give effect to the acquisition at those dates.

Years ended December 31. (millions)	Historical			Pro Forma (Unaudited)	
	1989	1988	1987	1989	1988
Revenues:					
Magazines	\$ 1,855	\$ 1,752	\$ 1,621	\$ 1,855	\$ 1,752
Filmed entertainment	1,315	—	—	2,760	2,096
Recorded music and music publishing	1,147	—	—	2,545	2,040
Cable television	1,224	812	714	1,543	1,268
Programming—HBO	1,177	1,122	971	1,177	1,122
Books	1,063	891	954	1,148	1,030
Intersegment elimination	(139)	(70)	(67)	(249)	(205)
Total revenues	\$ 7,642	\$ 4,507	\$ 4,193	\$ 10,779	\$ 9,103
Operating Income (loss):					
Magazines	\$ 287	\$ 287	\$ 283	\$ 287	\$ 287
Filmed entertainment	91	—	—	67	(296)
Recorded music and music publishing	146	—	—	229	128
Cable television	251	168	144	178	35
Programming—HBO	154	105	125	154	105
Books	(81)	104	88	(80)	106
Total operating income	\$ 848	\$ 664	\$ 640	\$ 835	\$ 365
Depreciation and amortization:					
Magazines	\$ 31	\$ 30	\$ 26	\$ 31	\$ 30
Filmed entertainment	77	—	—	245	214
Recorded music and music publishing	85	—	—	271	257
Cable television	271	138	124	466	409
Programming—HBO	12	13	12	12	13
Books	55	42	40	57	43
Total depreciation and amortization	\$ 531	\$ 223	\$ 202	\$ 1,082	\$ 966
Reconciliation to net income (loss):					
Total operating income	\$ 848	\$ 664	\$ 640	\$ 835	\$ 365
Interest and other, net	(1,068)	(100)	(73)	(1,200)	(988)
Corporate expenses	(85)	(42)	(56)	(126)	(92)
Gain on investments, net	63	—	—	63	57
Income (loss) before income taxes	(242)	522	511	(428)	(658)
Provision (benefit) for income taxes	14	240	240	4	(76)
Net income (loss)	\$ (256)	\$ 282	\$ 271	\$ (432)	\$ (582)

Depreciation and amortization above includes amortization relating to the purchase of WCI.

Years ended December 31, (millions)	Historical			Pro Forma (Unaudited)	
	1989	1988	1987	1989	1988
Assets:					
Magazines	\$ 971	\$ 923	\$ 694	\$ 971	\$ 923
Filmed entertainment	6,168	—	—	6,168	6,094
Recorded music and music publishing	7,104	—	—	7,104	6,809
Cable television	7,263	1,625	1,321	7,263	6,555
Programming—HBO	949	887	874	949	887
Books	763	1,225	1,156	763	1,347
Corporate	1,573	343	454	1,573	1,538
Total assets	\$24,791	\$5,003	\$4,499	\$24,791	\$24,153
Capital expenditures:					
Magazines	\$ 56	\$ 42	\$ 30	\$ 56	\$ 42
Filmed entertainment	32	—	—	51	31
Recorded music and music publishing	75	—	—	121	74
Cable television	280	199	151	330	304
Programming—HBO	15	9	6	15	9
Books	57	53	64	58	55
Corporate	7	9	9	18	40
Total capital expenditures	\$ 522	\$ 312	\$ 260	\$ 649	\$ 555

Information as to Time Warner's operations in different geographical areas is as follows:

Years ended December 31, (millions)	Historical			Pro Forma (Unaudited)	
	1989	1988	1987	1989	1988
Revenues by Time Warner customers:					
Domestic customers	\$ 6,361	\$4,298	\$4,021	\$ 8,260	\$ 7,222
International customers	1,281	209	172	2,519	1,881
Total operating revenues	\$ 7,642	\$4,507	\$4,193	\$10,779	\$ 9,103
Revenues by Time Warner operations:					
United States:					
Domestic	\$ 6,361	\$4,298	\$4,021	\$ 8,260	\$ 7,222
Export (a)	467	—	—	987	674
Europe	504	143	119	953	760
Rest of world	310	66	53	579	447
Total operating revenues	\$ 7,642	\$4,507	\$4,193	\$10,779	\$ 9,103
Operating Income by Time Warner operations:					
United States	\$ 774	\$ 655	\$ 631	\$ 677	\$ 295
Europe	42	8	4	101	41
Rest of world	32	1	5	57	29
Total operating income	\$ 848	\$ 664	\$ 640	\$ 835	\$ 365
Assets:					
United States	\$22,296	\$4,872	\$4,384	\$22,296	\$21,767
Europe	1,620	78	82	1,620	1,525
Rest of world	875	53	33	875	861
Total assets	\$24,791	\$5,003	\$4,499	\$24,791	\$24,153

(a) Approximately 60% are to European customers.

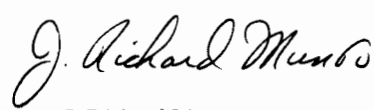
Report of Management

The accompanying consolidated financial statements have been prepared by management in conformity with generally accepted accounting principles, and necessarily include some amounts that are based on management's best estimates and judgments.

Time Warner maintains a system of internal accounting controls designed to provide management with reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly. The concept of reasonable assurance is based on the recognition that the cost of a system of internal control should not exceed the benefits derived and that the evaluation of those factors requires estimates and judgments by management. Further, because of inherent limitations in any

system of internal accounting control, errors or irregularities may occur and not be detected. Nevertheless, management believes that a high level of internal control is maintained by Time Warner through the selection and training of qualified personnel, the establishment and communication of accounting and business policies, and its internal audit program.

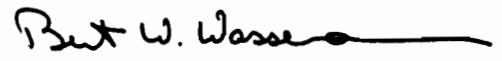
The Audit Committee of the Board of Directors, composed solely of outside directors, meets periodically with management and with Time Warner's internal auditors and independent auditors to review matters relating to the quality of financial reporting and internal accounting control, and the nature, extent and results of their audits. Time Warner's internal auditors and independent auditors have free access to the Audit Committee.



J. Richard Munro
*Co-Chairman and
Co-Chief Executive Officer*



Steven J. Ross
*Co-Chairman and
Co-Chief Executive Officer*



Bert W. Wasserman
*Executive Vice President and
Chief Financial Officer*

Report of Independent Auditors

The Board of Directors and Shareholders
Time Warner Inc.

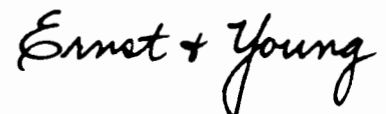
We have audited the accompanying consolidated balance sheet of Time Warner Inc. ("Time Warner") as of December 31, 1989 and 1988, and the related consolidated statements of operations, cash flows and shareholders' equity for each of the three years in the period ended December 31, 1989. These financial statements are the responsibility of Time Warner's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit

includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Time Warner at December 31, 1989 and 1988, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1989, in conformity with generally accepted accounting principles.

New York, New York
February 12, 1990



Selected Financial Information

Time Warner has accounted for its acquisition of a 59.3% common stock interest in WCI as of July 31, 1989 and for its acquisition on January 10, 1990 of the remaining capital stock of WCI as of December 31, 1989 using the purchase method of accounting. Accordingly, the Time Warner historical 1989 operating results include the operating results of WCI for the five months ended December 31, 1989, after deducting the WCI minority interest's 40.7% share, and the Time Warner historical balance sheet information at December 31, 1989 reflects the issuance on January 10, 1990 of securities of Time Warner and of BHC to acquire the remaining capital stock of WCI. The historical operating results and balance sheet information of Time Warner set forth below are supplemented by pro forma operating results for 1989 and 1988 that give effect to the acquisition of WCI as if it had occurred at the beginning of each year

and, accordingly, include 100% of the operating results of WCI, and by selected pro forma balance sheet information at December 31, 1988 that gives effect to the acquisition of WCI at that date. The pro forma results are presented for informational purposes only and are not necessarily indicative of the operating results that would have occurred if the acquisition had been consummated at the dates indicated, nor are they indicative of future operating results.

The selected financial information has been restated for the retroactive application of the change in the method of accounting for income taxes prescribed by FAS 96, which Time Warner adopted in 1989. Such change reduced net income in 1988 by \$7 million, or \$.13 per share, and increased net income by \$21 million, or \$.35 per share, in 1987 and by \$41 million, or \$.64 per share, in 1986.

Years ended December 31. (millions, except per share amounts)	Historical					Pro Forma (Unaudited)	
	1989	1988	1987	1986	1985	1989	1988
Operating statement information:							
Revenues	\$ 7,642	\$4,507	\$4,193	\$3,762	\$3,404	\$10,779	\$ 9,103
Income (loss) before gain on investments ⁽¹⁾	(298)	282	271	186	200	(474)	(616)
Gain on investments ⁽¹⁾⁽²⁾	42	—	—	231	—	42	34
Net income (loss) ⁽³⁾	(256)	282	271	417	200	(432)	(582)
Preferred dividend requirements	—	—	—	—	—	555	555
Net income (loss) applicable to common shares	(256)	282	271	417	200	(987)	(1,137)
Per share:							
Income (loss) before gain on investments ⁽¹⁾	(5.05)	4.88	4.53	2.94	3.15	(18.02)	(20.44)
Gain on investments ⁽¹⁾⁽²⁾	0.71	—	—	3.65	—	0.73	0.60
Net income (loss) ⁽³⁾	(4.34)	4.88	4.53	6.59	3.15	(17.29)	(19.84)
Dividends per common share	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00
Average shares outstanding	59.0	57.8	59.8	63.3	63.7	57.1	57.3
Balance sheet information:							
Total assets	\$24,791	\$5,003	\$4,499	\$4,306	\$3,053	\$24,791	\$24,153
Long-term debt	10,838	1,485	1,118	928	465	10,838	10,553
Shareholders' equity	\$ 6,756	\$1,388	\$1,284	\$1,317	\$1,184	\$ 6,756	\$ 6,691

(1) Net of applicable income taxes.

(2) After-tax gain on investments includes \$42 million in 1989 resulting primarily from the sale of 3.125 million shares of Columbia Pictures Entertainment, Inc. common stock; \$34 million (pro forma only) from WCI's gain on the sale of Lorimar's advertising business and the reversal of a provision WCI had recorded in 1987 for its guarantee of Cannon, Inc. bank debt; and \$231 million in 1986 from the initial public offering of 20 million shares of Class A common stock by Time Warner's 82%-owned subsidiary ATC.

(3) Time Warner sold Scott, Foresman in December 1989 for \$455 million, which resulted in an after-tax loss of \$120 million.

See accompanying notes to consolidated financial statements.

Quarterly Financial Information (Unaudited)

Historical (millions, except per share amounts)

Quarter	Revenues	Net Income (Loss) (a)	Earnings (Loss) Per Share (a)(b)	Dividends Per Common Share	Average Shares	Common Stock High	Common Stock Low
1988							
1st	\$ 1,065	\$ 65	\$ 1.12	\$.25	58.1	\$ 94 ¹ / ₂	\$ 78 ³ / ₄
2nd	1,102	82	1.42	.25	57.8	100 ¹ / ₄	84 ¹ / ₈
3rd	1,133	79	1.37	.25	57.6	117 ¹ / ₂	93
4th	1,207	56	0.97	.25	57.5	122 ¹ / ₂	96
Year	4,507	282	4.88	1.00	57.8	122 ¹ / ₂	78 ³ / ₄
1989							
1st	\$ 1,136	\$ 50	\$ 0.88	\$.25	56.6	\$ 122 ¹ / ₄	\$ 103 ⁵ / ₈
2nd	1,218	96	1.65	.25	58.2	182 ³ / ₄	112 ¹ / ₈
3rd	2,194	(180)	(2.95)	.25	61.1	158 ⁷ / ₈	127 ¹ / ₄
4th	3,094	(222)	(3.69)	.25	60.2	146 ¹ / ₂	118 ¹ / ₄
Year	7,642	(256)	(4.34)	1.00	59.0	182 ³ / ₄	103 ⁵ / ₈

Pro Forma (millions, except per share amounts)

Quarter	Revenues	Net Loss (c)	Net Loss Applicable to Common Shares (c)(d)	Loss Per Share (b)(c)	Dividends Per Common Share	Average Shares
1988						
1st	\$ 2,192	\$ (98)	\$ (234)	\$ (4.06)	\$.25	57.7
2nd	2,200	(77)	(214)	(3.72)	.25	57.5
3rd	2,210	(229)	(369)	(6.45)	.25	57.2
4th	2,501	(178)	(320)	(5.61)	.25	57.0
Year	9,103	(582)	(1,137)	(19.84)	1.00	57.3
1989						
1st	\$ 2,548	\$ (81)	\$ (217)	\$ (3.83)	\$.25	56.6
2nd	2,477	(52)	(189)	(3.32)	.25	57.0
3rd	2,660	(124)	(264)	(4.62)	.25	57.2
4th	3,094	(175)	(317)	(5.52)	.25	57.4
Year	10,779	(432)	(987)	(17.29)	1.00	57.1

(a) Historical amounts include an after-tax gain on investments of \$42 million (\$.70 per share) and an after-tax loss on the sale of Scott, Foresman of \$120 million (\$2.00 per share) in the fourth quarter of 1989.

(b) Per share amounts for the quarters and full years have been calculated separately. Quarterly amounts may not add to the annual amount because of differences in the average shares outstanding during each period.

(c) Pro forma amounts include after-tax gains on investments of \$13 million (\$.23 per share) in the first quarter of 1988, \$21 million (\$.37 per share) in the second quarter of 1988 and \$42 million (\$.73 per share) in the fourth quarter of 1989, and an after-tax loss on the sale of Scott, Foresman of \$120 million (\$2.09 per share) in the fourth quarter of 1989.

(d) After preferred dividend requirements.

See accompanying notes to consolidated financial statements.

Management's Discussion and Analysis

Financial Condition and Liquidity

The cost to acquire WCI, exclusive of the Time Warner Exchange Shares, amounted to approximately \$14 billion, and was financed through \$8.3 billion of additional debt and the issuance of Series C Cash Pay Preferred, Series D PIK Preferred and BHC securities (see Notes 2 and 9 to the accompanying financial statements). The acquisition of the initial 59.3% common stock interest in WCI was accounted for as of July 31, 1989 using the purchase method; accordingly, Time Warner's historical operating results for 1989 include the operating results of WCI for the five months ended December 31, 1989, after deducting the WCI minority interest's 40.7% share. The acquisition of the remaining capital stock of WCI was accounted for as of year end; accordingly, the Time Warner balance sheet at December 31, 1989 reflects the securities issued in the Merger on January 10, 1990 and the payment of certain Merger-related costs.

Time Warner's shareholders' equity increased to \$6.8 billion at December 31, 1989, compared to \$1.4 billion at December 31, 1988, principally as a result of the issuance of \$5.6 billion liquidation value of Series C Cash Pay Preferred and Series D PIK Preferred in the Merger, less 1989's net loss and dividends of \$256 million and \$57 million, respectively.

Time Warner's total debt as of December 31, 1989 amounted to \$10.9 billion, compared to \$1.5 billion at December 31, 1988. The increase is primarily attributable to debt incurred in connection with the acquisition of WCI (see Notes 2 and 7 to the accompanying financial statements). Effective as of January 10, 1990, unsecured Permanent Financing agreements with a group of commercial banks provide up to \$10.8 billion, of which \$7.1 billion was drawn upon to repay outstanding indebtedness under the Bridge Facilities and to pay certain Merger-related obligations. The remaining unused credit under the Permanent Financing is available for general corporate purposes and to support commercial paper borrowings and letters of credit. Commercial paper borrowings of \$2.1 billion at December 31, 1989 and \$560 million at December 31, 1988 are included in long-term debt as they are supported by available credit under long-term facilities.

Under the terms of the Permanent Financing, Time Warner and ATC are limited as to, among other things: (1) certain additional subsidiary debt, (2) certain acquisitions and investments, and (3) financial ratios of debt to pretax cash flow, pretax cash flow to cash interest expense, and after-tax cash flow less capital expenditures to cash interest expense plus cash dividends, all as defined in the Permanent Financing agreements.

In addition to the Merger, Time Warner expanded its core businesses through internal growth and selective acquisitions. Capital expenditures were \$522 million and \$312 million in 1989 and 1988, and of these expenditures \$280 million and \$199 million, respectively, were made in the cable business. Major investments also were made to acquire cable systems in 1989 and a 50% interest in Whittle in 1988.

Time Warner sold Scott, Foresman, its textbook publisher, in December 1989 because it no longer strategically fit into its core businesses. Proceeds were \$455 million, including the assumption by the purchaser of \$48 million of debt.

Time Warner's future dividend requirements have increased substantially as a result of the issuance of the 8³/₄% Series C Cash Pay Preferred and 11% Series D PIK Preferred. The Series C Cash Pay Preferred has annual cash dividend requirements of \$279 million starting in 1990. Dividends on the Series D PIK Preferred are paid with additional shares until 1993 at which time Time Warner has the option of paying the dividends in either cash or stock. In 1990, \$276 million liquidation value of such dividends will be paid. Beginning in 1994, all dividends are required to be paid in cash.

Management believes that Time Warner's operations and available credit facilities will provide sufficient cash to meet its obligations.

Warner Bros.' backlog, representing the amount of future revenues not yet recorded from contracts for the licensing of films for pay, network and syndicated television exhibition, amounted to \$977 million at December 31, 1989, compared to \$877 million at December 31, 1988. Warner Bros.' backlog includes amounts relating to HBO of \$155 million and \$143 million at December 31, 1989 and 1988, respectively.

The Federal Communications Commission (the "FCC") is presently reviewing the cable television industry's performance under the Cable Communications Policy Act of 1984 and examining the prices charged for basic cable service, as that legislation provided for virtually complete price deregulation for cable operators after December 1986. The FCC may propose some type of reregulation of the cable industry, including standards for which cable systems may be rate regulated and how that regulation would occur. In addition, certain legislation introduced recently in the United States Congress addresses, among other matters, various proposals for cable reregulation including the prices charged for cable services. It is not yet possible to assess the likelihood that either the FCC review or various Congressional initiatives will result in significant regulation of cable service pricing or other significant aspects of Time Warner's cable television operations.

Results of Operations

A portion of the discussion of the results of operations is based upon information as to Time Warner's operations in different business segments on a pro forma basis, which gives effect to the Offer and Merger as if they had simultaneously occurred at the beginning of 1989 or 1988, as appropriate.

1989 vs 1988:

Magazines

Revenues increased to \$1.855 billion, compared to \$1.752 billion in 1988, while operating income remained unchanged at \$287

million. Excluding depreciation and amortization, 1989 operating income increased slightly to \$318 million from \$317 million.

Advertising revenues increased 7% benefiting from higher page volume as well as higher rates. *Time*, *Fortune*, *Sports Illustrated* and the newly published *S.I. For Kids* fueled this gain. Strong subscription growth at *Sports Illustrated*, a newsstand price increase at *People* and higher revenue from AFP, Time Warner's 50%-owned subscription sales agency, all contributed to a 5% increase in circulation revenues.

Operating income remained unchanged, as the benefit of higher revenues was offset by volume related physical costs, the costs of a wide range of new investments and increased general and administrative expenses. In addition to the launch of *Entertainment Weekly*, a new publication which premiered in February 1990, Time Warner began publication, through its Southern Progress subsidiary, of *Southpoint* and *Travel South*. Time Warner also incurred expenditures associated with the development of such innovative production technologies as selective binding and ink-jet printing, as well as the test of a delivery alternative to the U.S. Postal Service. Overall, these costs were partially offset by higher joint venture earnings and the gain on the sale of Time Warner's investment in *McCall's* magazine.

Filmed Entertainment

On an historical basis, revenues were \$1.315 billion, with operating income of \$91 million, including \$77 million of depreciation and amortization which includes amortization related to the purchase of WCI.

On a pro forma basis, revenues increased to \$2.760 billion, compared to \$2.096 billion in 1988 and operating income increased to \$67 million, compared to a \$296 million loss. Depreciation and amortization, including amortization related to the purchase of WCI, amounted to \$245 million in 1989 and \$214 million in 1988. Excluding depreciation and amortization, 1989 operating income increased to \$312 million from an \$82 million loss in 1988. Substantial losses from Lorimar's filmed entertainment operations were included in 1988. Increases in domestic and foreign theatrical, worldwide home video, syndication and pay TV revenues were important contributors in the current year. The increase in operating income is directly related to the increased revenues. Film revenues from two highly successful 1989 releases, *Batman* and *Lethal Weapon 2*, and the domestic syndication of various products were significant contributors to the current year results.

Recorded Music and Music Publishing

On an historical basis, revenues were \$1.147 billion, with operating income of \$146 million, including \$85 million of depreciation and amortization which includes amortization related to the purchase of WCI.

On a pro forma basis, revenues increased to \$2.545 billion, compared to \$2.040 billion in 1988, and operating income increased to \$229 million from \$128 million. Depreciation and amortization, including amortization related to the purchase of WCI, amounted to \$271 million in 1989 and \$257 million in 1988. Excluding depreci-

ation and amortization, 1989 operating income increased to \$500 million from \$385 million. Gross domestic recorded music sales continue to have steady growth, with a 14% revenue increase over last year. The improved results are attributable to a broad group of popular releases, continued increased compact disc and cassette unit sales and higher average unit selling prices. WEA International experienced an increase in revenues of 31% over last year. The increase is primarily attributable to unit sales growth in the compact disc area and higher average unit selling prices. Warner/Chappell Music Publishing revenues increased 21% in the current year, reflecting the popularity of its large worldwide catalogue of music copyrights. The increase in operating income is directly related to the increase in revenues.

Cable Television

On an historical basis, revenues increased to \$1.224 billion, compared to \$812 million in 1988, and operating income increased to \$251 million from \$168 million. Depreciation and amortization, including amortization related to the purchase of WCI, amounted to \$271 million in 1989 and \$138 million in 1988.

On a pro forma basis, revenues increased to \$1.543 billion, compared to \$1.268 billion in 1988, and operating income increased to \$178 million from \$35 million in 1988. Depreciation and amortization, including amortization related to the purchase of WCI amounted to \$466 million in 1989 and \$409 million in 1988. Excluding depreciation and amortization, operating income increased to \$644 million compared to \$444 million in 1988. The revenue growth was attributable to gains in basic cable subscribers, higher per-subscriber revenues, the acquisition of certain cable systems and the consolidation of Memphis, which previously was accounted for under the equity method. The increase in operating income resulted from the revenue gains and improved operating margins. A one-time charge of \$20 million was included in 1988 for relocating ATC's executive offices and the related reorganization.

Programming—HBO

Revenues increased to \$1.177 billion from \$1.122 billion in 1988, while operating income rose to \$154 million from \$105 million in 1988. Depreciation and amortization amounted to \$12 million in 1989 and \$13 million in 1988. Excluding depreciation and amortization, 1989 operating income increased to \$166 million from \$118 million in 1988.

The revenue growth was primarily from increased subscriber revenue, which reflects both the impact of an increased number of subscribers resulting from successful subscriber incentive plans, and higher rates. This growth was partially offset by lower HBO Video revenues as fewer major titles were released for distribution. Operating income was higher in 1989 primarily because of the nonrecurring \$35 million charge taken in 1988 to reduce the carrying value of the Ku band satellite investment and related costs. Operating income also benefited from the growth in subscriber revenue, partially offset by higher programming costs that rose in line with sub-

scriber growth. In addition, the 1989 amounts include start-up costs related to *The Comedy Channel*, an advertiser-supported basic channel launched in November 1989.

Books

On an historical basis, revenues increased to \$1.063 billion, from \$891 million in 1988. An operating loss of \$81 million, including a \$175 million pretax loss relating to the December 1989 sale of Scott, Foresman, was incurred, compared to operating income of \$104 million in 1988. Depreciation and amortization amounted to \$55 million in 1989 and \$42 million in 1988. Operating results for Scott, Foresman are included in all periods presented.

On a pro forma basis, revenues increased to \$1.148 billion, compared to \$1.030 billion in 1988. An operating loss of \$80 million, including the \$175 million pretax loss relating to the sale of Scott, Foresman, was incurred, compared to operating income of \$106 million in 1988. Excluding depreciation and amortization, the 1989 operating loss was \$23 million, compared to operating income of \$149 million in 1988. The revenue increase was led by Time-Life Books' shipments of a new book series, *The Third Reich*, the inclusion of revenues from American Lawyer Media, L.P., acquired in 1989, and higher revenues at Scott, Foresman. Excluding the loss on the sale of Scott, Foresman, operating income was \$95 million, which was lower than 1988 results primarily because of lower results at Warner Books and an operating loss at American Lawyer partially offset by improved results at Time-Life Books.

Corporate Expenses

Corporate expenses increased to \$85 million in 1989 from \$42 million in 1988. The increase was primarily a result of the inclusion of WCI corporate expenses and costs related to the Offer and Merger.

Interest and Other, Net

Interest and other, net increased to \$981 million in 1989 from \$88 million in 1988. The increase was a result of borrowings associated with the purchase of WCI, including \$327 million of Bridge Facilities fees, ATC's additional investment in Memphis in late 1988, the acquisition of certain cable systems in August 1989 and the investment in Whittle that occurred in December 1988.

On a pro forma basis, interest and other, net increased to \$1.183 billion, compared to \$976 million in 1988, principally as a result of higher interest rates and increased borrowings associated with ATC's additional investment in Memphis, and the cable systems and Whittle acquisitions.

Gain on Investments, Net

The 1989 gain of \$63 million was primarily related to the sale of Columbia Pictures Entertainment, Inc. common stock.

Income Taxes

Time Warner's 1989 tax provision of \$14 million on a pretax loss

of \$242 million primarily resulted from taxes on foreign income at rates higher than the U.S. federal rate, nondeductible expenses, principally the amortization of the excess of cost over net assets acquired, and state and local income taxes.

1988 vs 1987:

Magazines

In 1988, revenues increased to \$1.752 billion, compared to \$1.621 billion in 1987, and operating income increased to \$287 million from \$283 million. The revenue increase was primarily a result of a 9% increase in advertising revenues and a 7% increase in circulation revenues. The increase in operating income was a result of the revenue growth partially offset by higher paper prices, the April 1988 postal rate hike and higher circulation promotion expenses.

Cable

Revenues increased to \$812 million in 1988, compared to \$714 million in 1987, and operating income increased to \$168 million from \$144 million. The revenue increase was primarily the result of growth in the number of basic cable subscribers and higher basic cable pricing, as well as gains in premium programming subscriptions. Operating income benefited from the higher revenues and continued emphasis on cost control, partially offset by the one-time charge for relocation and reorganization of \$20 million.

Programming—HBO

In 1988, revenues increased to \$1.122 billion from \$971 million in 1987, while operating income decreased to \$105 million from \$125 million in 1987. The revenue increase came from subscriber growth at both HBO and Cinemax coupled with the consolidation of HBO Video, which was previously accounted for by the equity method. The decrease in income resulted from the \$35 million Ku band satellite charge.

Books

Revenues decreased to \$891 million in 1988 from \$954 million in 1987, and operating income increased to \$104 million, compared to \$88 million in 1987. The decrease in revenues was due primarily to the sale of SAMI/Burke in December 1987 offset by revenue gains at all book operations except Oxmoor House, which remained unchanged. Improved results at Scott, Foresman was the primary contributor to the increased income.

Corporate Expenses

In 1988, corporate expenses decreased to \$42 million from \$56 million in 1987 as a result of staff reductions and a shift of certain costs from corporate to various business segments where the costs are incurred.

WHO

Operating Officers

Magazines

THE TIME INC. MAGAZINE COMPANY

Reginald K. Brack Jr.
*Chairman of the Board,
President and CEO*

Donald M. Elliman Jr.
*Executive Vice President,
Marketing*

S. Christopher Meigher III
*Executive Vice President,
Group Publisher*

Robert L. Miller
*Executive Vice President,
Group Publisher*

Richard W. Angle Jr.
*Senior Vice President,
Administration*

Joseph A. Ripp
*Vice President and
Chief Financial Officer*

Donald J. Barr
Publisher, Sports Illustrated

Katherine M. Bonniwell
Publisher, Life

James B. Hayes
Publisher, Fortune

Michael J. Klingensmith
Publisher, Entertainment Weekly

Don Logan
*President and
Chief Executive Officer,
Southern Progress Corporation*

William S. Myers
Publisher, Money

Elizabeth P. Valk
Publisher, People

Louis A. Weil III
Publisher, Time

EDITORIAL EXECUTIVES

Jason McManus
*Editor-in-Chief,
Time Warner Inc.*

Richard B. Stolley
Editorial Director

Gilbert Rogin
Corporate Editor

James R. Gaines
Managing Editor, Life

Jeffrey A. Jarvis
*Managing Editor,
Entertainment Weekly*

Landon Y. Jones
Managing Editor, People

Frank Lalli
Managing Editor, Money

Marshall Loeb
Managing Editor, Fortune

Henry Muller
Managing Editor, Time

Mark R. Mulvoy
*Managing Editor,
Sports Illustrated*

Filmed Entertainment

WARNER BROS. INC.

Robert A. Daly
*Chairman and Chief Executive
Officer*

Terry S. Semel
*President and
Chief Operating Officer*

Barry M. Meyer
Executive Vice President

Mark Canton
*Executive Vice President,
Worldwide Motion Picture
Production*

Charles D. McGregor
*Executive Vice President,
Corporate Projects*

James R. Miller
*Executive Vice President,
Business and Acquisitions*

Ralph Peterson
*Executive Vice President
and Treasurer*

Sanford E. Reisenbach
*Executive Vice President,
Marketing and Planning*

WARNER BROS. THEATRICAL PRODUCTION

Bruce Berman
President

WARNER BROS. DOMESTIC THEATRICAL DISTRIBUTION

D. Barry Reardon
President

WARNER BROS. WORLDWIDE THEATRICAL ADVERTISING AND PUBLICITY

Robert G. Friedman
President

WARNER BROS. INTERNATIONAL THEATRICAL DISTRIBUTION

Richard Fox
President

WARNER HOME VIDEO

Warren Lieberfarb
President

WARNER BROS. MUSIC

Gary Le Mel
President

WARNER BROS. TELEVISION PRODUCTION

Harvey Shephard
President

LORIMAR TELEVISION PRODUCTION

David E. Salzman
President

WARNER BROS. DOMESTIC TELEVISION DISTRIBUTION

Richard T. Robertson
President

WARNER BROS. INTERNATIONAL TELEVISION DISTRIBUTION

Michael J. Solomon
President

WARNER BROS. DOMESTIC PAY-TV, ANIMATION AND NETWORK FEATURES

Edward Bleier
President

WARNER BROS. INTERNATIONAL THEATRES COMPANY

Salah Hassanein
President

WARNER BROS. WORLDWIDE MERCHANDISING

Daniel L. Romanelli
President

LICENSING CORPORATION OF AMERICA-SPORTS

Joseph P. Grant
President

WARNER BROS. RECREATIONAL ENTERPRISES

C. V. Wood
President

DC COMICS

Jenette Kahn
President and Editor-in-Chief

Paul Levitz
*Publisher and
Executive Vice President*

**Recorded Music
and Music Publishing**

WARNER MUSIC GROUP

Robert J. Morgado

WARNER BROS. RECORDS

Mo Ostin

Chairman

Lenny Waronker

President

ATLANTIC RECORDING GROUP

Ahmet M. Ertegun

Chairman

Douglas P. Morris

President

ELEKTRA ENTERTAINMENT

Robert A. Krasnow

Chairman

WEA INTERNATIONAL

Ramon Lopez

Chairman and Chief

Executive Officer

WARNER/CHAPPELL MUSIC

Leslie E. Bider

President and

Chief Executive Officer

WEA CORP.

Henry Droz

President

WEA MANUFACTURING

Richard C. Marquardt

President and

Chief Executive Officer

IVY HILL CORPORATION

Ellis Kern

President

WARNER SPECIAL PRODUCTS

Michael Kapp

President

WARNER NEW MEDIA

Stan Cornyn

President

Cable

TIME WARNER CABLE GROUP

Joseph J. Collins

Chairman and President

Tommy J. Harris

Vice President, Finance

**AMERICAN TELEVISION AND
COMMUNICATIONS
CORPORATION**

James H. Doolittle

President and

Chief Operating Officer

James P. Cottingham

Executive Vice President

John F. Gault

Executive Vice President

Kevin H. Rorke

Executive Vice President

**WARNER CABLE
COMMUNICATIONS INC.**

James L. Gray

President

Theodore J. Cutler

Executive Vice President

Charles W. Ellis

Executive Vice President

NEW YORK CITY CABLE GROUP

Richard Aurelio

President

HBO—Programming

HOME BOX OFFICE, INC.

Michael J. Fuchs

*Chairman of the Board
and Chief Executive Officer*

E. Thayer Bigelow Jr.

*President and
Chief Operating Officer*

Larry P. Carlson

Executive Vice President

Peter W. Frame

Executive Vice President

Stephen J. Scheffer

Executive Vice President

Seth G. Abraham

Senior Vice President

Harold Akselrad

Senior Vice President

Jeffrey L. Bewkes

*Senior Vice President
and Chief Financial Officer*

John K. Billock

Senior Vice President

Robert Cooper

Senior Vice President

Louis de Boer II

Senior Vice President

Shelley D. Fischel

Senior Vice President

John S. Redpath Jr.

*Senior Vice President
and General Counsel*

Bridget Potter Wool

Senior Vice President

Books

THE TIME INC. BOOK COMPANY

Kelso F. Sutton

*President and
Chief Executive Officer*

Paul V. McLaughlin

*Vice President and
Chief Financial Officer*

TIME INC. BOOKS DIRECT

Christopher T. Linen

*President and
Chief Executive Officer*

BOOK-OF-THE-MONTH
CLUB, INC.

James Mercer

*President and
Chief Executive Officer*

TIME-LIFE BOOKS INC.

John M. Fahey Jr.

*President and
Chief Executive Officer*

TIME WARNER TRADE
PUBLISHING

William Sarnoff

Chairman

LITTLE, BROWN AND COMPANY

Kevin L. Dolan

*President and
Chief Executive Officer*

WARNER BOOKS

Lawrence J. Kirschbaum

President

TIME WARNER ENTERPRISES

Arthur R. Barron

Chairman

Robert W. Pittman

President

Corporate Management Group

J. Richard Munro
*Co-Chairman and
Co-Chief Executive Officer*

Steven J. Ross
*Co-Chairman and
Co-Chief Executive Officer*

N. J. Nicholas Jr.
President

Gerald M. Levin
Vice Chairman

Martin D. Payson
*Vice Chairman
and General Counsel*

Bert W. Wasserman
*Executive Vice President
and Chief Financial Officer*

Glenn A. Britt
*Senior Vice President
and Treasurer*

David R. Haas
*Senior Vice President
and Controller*

Geoffrey W. Holmes
Senior Vice President

Allan B. Ecker
Secretary

Jason McManus
Editor-in-Chief

Board of Directors

J. Richard Munro
*Co-Chairman and
Co-Chief Executive Officer
(Director since 1978)*

Steven J. Ross
*Co-Chairman and
Co-Chief Executive Officer
(1961*)*

Merv Adelson
*Chairman,
East-West Capital Associates
Inc. (1989*)*

James F. Beré
*Chairman and CEO,
Borg-Warner Corporation (1979)*

Lawrence B. Buttenwieser
Partner, Rosenman & Colin (1963)*

Hugh F. Culverhouse
*Partner, Culverhouse & Botts
(1986*)*

Michael D. Dingman
*Chairman and CEO,
The Henley Group, Inc. (1978)*

Allan B. Ecker
*Secretary
Partner, Parker, Duryee,
Rosoff & Haft (1962*)*

Edward S. Finkelstein
*Chairman and CEO,
R. H. Macy & Co., Inc. (1984)*

Beverly Sills Greenough
*Former General Director,
New York City Opera Inc. (1982*)*

Benjamin D. Holloway
*Director,
The Continental Companies
(1988*)*

Matina S. Horner
*Executive Vice President,
Teachers Insurance and Annuity
Association—College
Retirement Equities Fund (1975)*

Deane F. Johnson
*Office of the President,
Warner Communications Inc.
(1982*)*

David T. Kearns
*Chairman and CEO,
Xerox Corporation (1978)*

Gerald M. Levin
Vice Chairman (1988)

Henry Luce III
*President,
The Henry Luce Foundation Inc.
(1967)*

Jason McManus
Editor-in-Chief (1988)

N. J. Nicholas Jr.
President (1983)

John R. Opel
*Chairman of the Executive Committee,
International Business
Machines Corporation (1984)*

Martin D. Payson
*Vice Chairman and General Counsel
(1976*)*

Donald S. Perkins
*Former Chairman,
Jewel Companies, Inc. (1979)*

Raymond S. Trough
*Senior Advisor,
Salomon Brothers Inc. (1979*)*

William J. vanden Heuvel
*Counsel to
Stroock & Stroock & Lavan (1981*)*

Bert W. Wasserman
*Executive Vice President
and Chief Financial Officer (1981*)*

DIRECTORS EMERITUS

Eugene R. Black
Jacob S. Liebowitz
Edward Rosenthal

**Became a Director of Warner
Communications Inc. in the
year shown.*

<u>TIME WARNER</u>	<u>SYMBOL</u>	<u>TRANSFER AGENTS</u>	<u>AUDITORS</u>
Common Stock	TWX (NYSE)	First Chicago Trust Company of New York 30 West Broadway New York, NY 10007 (212) 587-6515 1-800-446-2617	Ernst & Young
8 ³ / ₄ % Cash Pay Convertible Exchangeable Preferred Stock	TWX pfd. C (NYSE)	Manufacturers Hanover Trust Company 450 W. 33rd Street New York, NY 10001 (212) 613-7147 1-800-647-4273	<u>LEGAL COUNSEL</u> Cravath, Swaine & Moore Paul, Weiss, Rifkind, Wharton & Garrison
11% Pay-In-Kind Convertible Exchangeable Preferred Stock	TWX pfd. D (NYSE)		Copies of the Company's Form 10-K annual report will be available upon written request to: Shareholder Relations, Time Warner Inc., 75 Rockefeller Plaza, New York, NY 10019. (212) 484-8000
<u>TIME WARNER</u>	<u>TRUSTEES</u>		
10 ⁵ / ₈ % Notes due 1992	Marine Midland Bank N.A.		
9 ⁷ / ₈ % Debentures due 2009	Bankers Trust Co.		
9 ¹ / ₂ % Notes due 1994	Marine Midland Bank N.A.		
8 ³ / ₄ % Debentures due 2017	Marine Midland Bank N.A.		
<u>WARNER COMMUNICATIONS</u>			
11 ¹ / ₂ % Subordinated Debentures due 2013	Security Pacific National Bank		
10 ⁷ / ₈ % Subordinated Debentures due 1995	Security Pacific National Bank		
9 ¹ / ₈ % Subordinated Debentures due 1996	Security Pacific National Bank		
7 ⁵ / ₈ % Subordinated Debentures due 1994	United States Trust Company of New York		
<u>LORIMAR TELEPICTURES</u>			
11% Sr. Subordinated Debentures due 1999	I.B.J. Schroder Bank & Trust Company		
6% Convertible Sr. Subordinated Debentures due 2001	Chase Manhattan Bank N.A.		
<u>ATC</u>			
9 ³ / ₄ % Debentures due 2016	Manufacturers Hanover Trust Company		
8 ³ / ₈ % Notes due 1993	Manufacturers Hanover Trust Company		

Across the Globe...and in the Community

Although Time Warner Inc. was created with global markets and the next century in mind, the company remains acutely aware of the pressing social concerns that today beset our local communities. Both Time and Warner have traditions of active involvement in the communities where we live and work. Both have made extensive commitments of money, time and effort to a wide range of vitally important issues—from literacy to youth to the environment.

Within our own walls, we have long demonstrated our social responsibility, in everything from the hiring and promotion of women and minorities—Time Warner's U.S. work force is 50.2 percent female and 24 percent minority—to our continuing adherence to the Sullivan Principles on corporate conduct in South Africa, to our pioneering adoption of a comprehensive AIDS education and anti-discrimination policy. Last year, our leadership in developing progressive work-and-family policies and practices won Time Warner national recognition.

The extent of Time Warner's social commitment is as broad and varied as the company itself. We are currently compiling a report for publication later this year on the full scope of Time Warner's corporate and divisional social responsibility programs. If you wish to receive a copy, please write to: Director, Corporate Community Relations, Room 37-26, 1271 Avenue of the Americas, New York, NY 10020.