SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2002

Commission file number 001-12878

TIME WARNER ENTERTAINMENT COMPANY, L.P.

(Exact name of registrant as specified in its charter)

Delaware	**13-3666692**
(State or other jurisdiction of incorporation or organization of registrant)	*(I.R.S. Employer Identification Number)*

American Television and Communications Corporation	**Delaware**	**13-2922502**
Warner Communications Inc.	**Delaware**	**13-2696809**
(Exact name of registrant as specified in its charter)	*(State or other jurisdiction of incorporation or organization)*	*(I.R.S. Employer Identification Number)*

75 Rockefeller Plaza
New York, NY 10019
(212) 484-8000
(Address, including zip code, and telephone number, including area code, of principal executive offices)

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

Title of each class	Name of each exchange on which registered
7¼% Senior Debentures due 2008	New York Stock Exchange

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

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

Indicate by check mark if the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). No ☑

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☑

Documents Incorporated by Reference:
None

PART I

Item 1. *Business*

Time Warner Entertainment Company, L.P. ("TWE") is engaged principally in three fundamental areas of business:

- Cable, consisting principally of interests in cable television systems and high speed data services;
- Filmed Entertainment, consisting principally of interests in filmed entertainment and television production; and
- Networks, consisting principally of interests in cable television and broadcast network programming.

TWE is a Delaware limited partnership that was formed in 1992. Prior to the completion of a restructuring of the TWE partnership (see below), AOL Time Warner Inc. ("AOL Time Warner"), through its wholly owned subsidiaries, owns general and limited partnership interests in 72.36% of the pro rata priority capital ("Series A Capital") and residual equity capital of TWE and 100% of the junior priority capital. As a result of the November 2002 merger of Comcast Corporation ("Comcast") and AT&T Corp.'s ("AT&T") broadband businesses, including AT&T's interest in TWE, the remaining 27.64% limited partnership interests in the Series A Capital and residual equity capital of TWE is held by two trusts (the "Comcast Trusts"), all of the beneficial interests of which are owned by a subsidiary of Comcast. See "TWE Restructuring," below, for a discussion of the equity interests in TWE upon the completion of a restructuring of the partnership.

During the second quarter of 2002, prior to the completion of Comcast's acquisition of AT&T's interests, AT&T exercised a one-time option to increase its ownership in the Series A Capital and Residual Capital of TWE. As a result, on May 31, 2002, AT&T's interest in the Series A Capital and Residual Capital of TWE increased by approximately 2.13% to approximately 27.64% and AOL Time Warner's corresponding interest in the Series A Capital and Residual Capital of TWE decreased by a like amount, to 72.36%.

TWE Restructuring

In August 2002, AOL Time Warner, Comcast and AT&T announced that they had agreed to restructure TWE. The restructuring (the "TWE Restructuring") is expected to be completed on March 31, 2003.

The TWE Restructuring will result in the following: (i) AOL Time Warner will acquire complete ownership of TWE's content assets (including Warner Bros. and Home Box Office, which will become separate, wholly owned subsidiaries of AOL Time Warner); (ii) all of AOL Time Warner's directly-owned cable television system interests will be contributed to a separate company which will become a majority-owned subsidiary of AOL Time Warner and will be renamed Time Warner Cable Inc. ("TWC Inc." or "TWC"); (iii) TWE will become a subsidiary of TWC Inc. and will continue to own the cable television system interests previously owned by it; (iv) Comcast will receive $2.1 billion in cash and AOL Time Warner equity securities valued at $1.5 billion; (v) a Comcast Trust will also retain a 21% economic interest in Time Warner Cable, through a 17.9% direct ownership interest in TWC Inc. (representing a 10.7% voting interest) and a limited partnership interest in TWE representing a 4.7% residual equity interest; and (vi) AOL Time Warner will retain an overall 79% economic interest in the cable business, through an 82.1% ownership interest in TWC Inc. (representing an 89.3% voting interest) and a partnership interest in TWE representing a 1% residual equity interest and a $2.4 billion preferred component. For additional information with respect to the TWE Restructuring, see Management's Discussion and Analysis of Results of Operations and Financial Condition, "Recent Developments." set forth at pages F-3 and F-4 herein and Note 1 to TWE's consolidated financial statements set forth at pages F-34 and F-35 herein.

The AOLTW General Partners

Prior to the completion of the TWE Restructuring, Warner Communications Inc. ("WCI," a subsidiary of AOL Time Warner) and American Television and Communications Corporation ("ATC," a subsidiary of

AOL Time Warner) are the two general partners of TWE (the "AOLTW General Partners"). TWE does not have any ownership interest in the businesses or assets of the AOLTW General Partners.

The principal assets of the AOLTW General Partners currently include, in addition to their interests in TWE: WCI's ownership of substantially all of the Warner Music Group ("WMG"), which produces and distributes recorded music, owns and administers music copyrights and manufactures and prints CDs and DVDs; WCI's 50% interest in DC Comics, a New York general partnership which is 50% owned by TWE ("DC Comics"); WCI's 99.95% aggregate interest in Warner Entertainment Japan Inc., a corporation organized under the laws of Japan ("Warner Japan"); certain securities of Turner Broadcasting System, Inc. ("TBS") which in the aggregate represent an equity interest of approximately 10.6% in TBS; a 34% aggregate interest in Time Warner Telecom Inc.; and 7.66% of the common stock of Time Warner Companies, Inc., the assets of which consist primarily of investments in its consolidated and unconsolidated subsidiaries, including TWE.

Upon the completion of the TWE Restructuring, TWC Inc. will be the general partner of TWE and WCI and one of the Comcast Trusts will be the limited partners of TWE. For additional information with respect to the changes in TWE's organization following the completion of the TWE Restructuring, see "Description of Certain Provisions of the TWE Partnership Agreement" at pages 17 through 20 herein.

TWE-A/N Partnership

In 1995, TWE formed a cable television joint venture with the Advance/Newhouse Partnership ("Advance/Newhouse") known as the Time Warner Entertainment-Advance/Newhouse Partnership ("TWE-A/N"). During 2002, TWE and Advance/Newhouse Partnership ("Advance/Newhouse") completed the restructuring of the partnership known as the Time Warner Entertainment-Advance/Newhouse Partnership ("TWE-A/N"). As part of the TWE-A/N restructuring (the "TWE-A/N Restructuring"), cable systems and their related assets and liabilities serving 2.1 million subscribers as of December 31, 2002, located primarily in Florida (the "A/N Systems"), were transferred to a subsidiary of TWE-A/N. Advance/Newhouse has authority for the supervision of the day-to-day operations of the subsidiary, subject to some exceptions requiring action by unanimous consent, and TWE will continue to exercise various management functions, including oversight of programming and certain engineering-related services. TWE has deconsolidated the financial position and operating results of the A/N Systems for all periods. Under the new TWE-A/N Partnership Agreement, effective August 1, 2002, Advance/Newhouse's interest in TWE-A/N tracks only the economic performance of the A/N Systems, while TWE retains the economic interests and associated liabilities in the remaining TWE-A/N cable systems.

Also, in connection with the TWE-A/N Restructuring, AOL Time Warner effectively acquired Advance/Newhouse's 17% interest in Road Runner, a high speed cable modem Internet service provider. As a result of the termination of Advance/Newhouse's minority rights in Road Runner, TWE has consolidated the financial position and results of operations of Road Runner with the financial position and results of operations of TWE's Cable segment, effective January 1, 2002. See Note 4, "Cable-Related Transactions and Investments — Restructuring of TWE-A/N and Road Runner Partnership," to TWE's consolidated financial statements set forth at pages F-50 through F-52.

For additional information with respect to TWE-A/N, See "Description of Certain Provisions of the TWE-A/N Partnership Agreement" at pages 20 through 22 herein.

AOL-Time Warner Merger

AOL Time Warner was formed in connection with the merger of America Online, Inc ("America Online") and Time Warner Inc. ("Time Warner"), which was consummated on January 11, 2001 (the "Merger" or the "AOL-Time Warner Merger"). As a result of the Merger, America Online and Time Warner each became wholly owned subsidiaries of AOL Time Warner.

Caution Concerning Forward-Looking Statements

This Annual Report on Form 10-K includes certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on management's current expectations and are naturally subject to uncertainty and changes in circumstances. Actual results may vary materially from the expectations contained herein due to changes in economic, business, competitive, technological and/or regulatory factors. More detailed information about those factors is set forth on pages F- and F- herein. TWE is under no obligation to (and expressly disclaims any such obligation to) update or alter its forward-looking statements whether as a result of new information, subsequent events or otherwise.

Available Information and Website

TWE's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to such reports filed with the Securities and Exchange Commission (SEC) pursuant to Sections 13(a) or 15(d) of the Securities Exchange Act are available on the SEC's Website at www.sec.gov. TWE does not have a Website.

CABLE

TWE's Cable business consists principally of interests in cable television systems that provide video programming and high speed data services to customers under the name Time Warner Cable. As a result of the TWE Restructuring which is expected to be completed on March 31, 2003, Time Warner Cable Inc. ("TWC Inc."), will become an 82.1%-owned subsidiary of AOL Time Warner and will own or manage all of AOL Time Warner's and TWE's cable television systems. Of the 10.9 million basic subscribers served by Time Warner Cable at December 31, 2002, 1.7 million are in systems that will be owned by TWC Inc. directly or through wholly owned subsidiaries of AOL Time Warner and 9.2 million are in systems that will continue to be owned or managed by TWE or TWE-A/N. Following the TWE Restructuring, TWE will become a 94.3%-owned subsidiary of TWC Inc. (with AOL Time Warner holding a partnership interest in TWE representing a 1% residual equity interest and a $2.4 billion preferred component). All of these systems will continue to provide services under the Time Warner Cable brand name.

As a result of the TWE-A/N Restructuring, which was completed on December 31, 2002, cable systems which served 2.1 million subscribers, primarily located in Florida, were transferred to a subsidiary of TWE-A/N, and Advance/Newhouse's interest in TWE-A/N was converted into an interest that tracks the economic performance of these A/N Systems. Advance/Newhouse has authority for supervision of the day-to-day operations of the subsidiary, subject to some exceptions, including limitations on the incurrence of indebtedness, and TWE will continue to exercise various management functions, including oversight of programming and certain engineering-related matters. Time Warner Cable oversees the management of, and retains the economic interests and associated liabilities in, the remaining systems owned by TWE-A/N. TWE has deconsolidated the financial position and operating results of the A/N Systems for all periods.

Time Warner Cable's cable systems include systems serving 1.2 million subscribers that are part of Texas Cable Partners ("TCP"), a 50-50 joint venture between Comcast and TWE-A/N, and systems serving 306,000 subscribers that are part of Kansas City Cable Partners ("KCCP"), a 50-50 joint venture between Comcast and TWE. TWE's investments in these joint ventures are accounted for using the equity method. TWE receives a fee for managing the TCP and KCCP systems.

For additional information with respect to the TWE and TWE-A/N restructurings, see Management's Description and Analyses of Results of Operations and Financial Condition, "Recent Developments" and Note 4 "Cable-Related Transactions and Investments," to TWE's consolidated financial statements set forth at pages F-50 through F-52 herein.

Systems Operations

Time Warner Cable is the second largest operator of cable television systems in the U.S. As of December 31, 2002, Cable systems owned or managed by Time Warner Cable passed approximately 18.5 million homes, and provided basic cable service to 10.9 million subscribers and high speed data services to 2.5 million residential and commercial subscribers. Time Warner Cable operates large clustered and technologically advanced cable systems. As of December 31, 2002, more than 73% of its subscribers were in 19 geographic clusters, each serving more than 300,000 subscribers, and approximately 99% of its cable systems were capable of carrying two-way broadband services, with approximately 97% having been upgraded to 750MHz or higher. Time Warner Cable is an industry leader in developing and rolling-out new products and services, such as video-on-demand, subscription video-on-demand, high-definition television, home networking and set-top boxes with integrated digital video recorders. See "Advanced Cable Services" below.

Franchises

Cable systems are constructed and operated under non-exclusive franchises granted by state or local governmental authorities. Franchises typically contain many conditions, such as time limitations on commencement or completion of construction; service requirements, including number of channels; provision of free services to schools and other public institutions; and the maintenance of insurance and indemnity bonds. Cable franchises are subject to various federal, state and local regulations. See "Regulation and Legislation" below.

Video Programming

Video programming is generally made available to customers through packages of different programming services provided for prescribed monthly fees. The available analog channel capacity of Time Warner Cable's systems has expanded as system upgrades are completed, with most systems offering around 70 analog channels. Customers receiving Time Warner Cable's digital services may elect to receive up to 150 video and audio channels, including expanded pay-per-view and premium channel options as well as other programming products.

Video programming available to customers includes local and distant broadcast television stations, cable programming services like CNN, A&E and ESPN, and premium cable services like HBO, Showtime and Starz! The terms and conditions of carriage of programming services are generally established through affiliation agreements between the programmers and Time Warner Cable. Most programming services impose a monthly license fee per subscriber upon the cable operator and these fees typically increase over time. Time Warner Cable's programming costs have risen in recent years, see Management's Discussion and Analysis of Results of Operations, "Business Segment Results — Cable". Time Warner Cable sometimes has the right to cancel contracts and generally has the right not to renew them. Time Warner Cable may not always be able to renew contracts when it wishes to do so. Time Warner Cable also must periodically obtain retransmission consent for permission to carry local broadcast stations that have so elected. Time Warner Cable cannot be assured that each station will grant such consent on reasonable terms. It is unknown whether the loss of any one popular supplier would have a material adverse effect on Time Warner Cable's operations.

Video Programming Charges and Advertising

Video subscribers to Time Warner Cable's cable systems are typically charged monthly subscription fees based on the level of service selected and, in some cases, equipment usage fees. Subscription revenues account for most of Time Warner Cable's revenues. Although regulation of certain cable programming rates ended in 1999, rates for "basic" programming as well as for equipment rentals and installation services continue to be subject to regulation pursuant to federal law. See "Regulation and Legislation" below.

Video subscribers may also elect to receive premium channels for an additional monthly fee with discounts generally available for the purchase of packages of more than one premium service. Pay-per-view movies and special events are charged on a per-view basis.

Time Warner Cable also generates revenue by selling advertising time to a variety of national, regional and local businesses. Cable television operators receive an allocation of scheduled advertising time on certain cable programming services into which the operator can insert commercials. The clustering of Time Warner Cable's systems expands the share of viewers that Time Warner Cable reaches within a local DMA (Designated Market Area), which helps local ad sales personnel to compete more effectively with broadcast and other media. In addition, in many locations, contiguous cable system operators have formed advertising interconnects to deliver locally inserted commercials across wider geographic areas, replicating the reach of the broadcast stations as much as possible. As of December 31, 2002, 15 of Time Warner Cable's 34 divisions participated in local cable advertising interconnects.

A portion of Time Warner Cable's advertising revenues come from sales to other AOL Time Warner segments and from sales to programming vendors in support of their channel launches. For the past two years, these sales to programming vendors have represented a substantial portion of Time Warner Cable's total advertising revenues. However, these advertising revenues have decreased in recent periods as the number of new programming service launches has declined. TWE expects this trend to continue and expects sales of advertising to other AOL Time Warner segments to decline significantly in 2003. See Management's Discussion and Analysis of Results of Operations and Financial Condition Business Segment Results — Cable."

Local News Channels

Time Warner Cable operates, alone or in partnerships, 24-hour local news channels in New York City (NY1 News), Albany, NY (News 9 Albany), Rochester, NY (R/News), Charlotte and Raleigh, NC (Carolina News 14), Austin (News 8 Austin) and Houston, TX (News 24 Houston). These channels have developed into attractive vehicles for local advertising and provide Time Warner Cable with an important connection to the communities in which the channels operate. Preparations are underway to launch news channels in San Antonio, TX and Syracuse, NY.

Advanced Cable Services

Digital Programming Services

Digital Video Service

As of December 31, 2002, Time Warner Cable had more than 3.7 million digital service subscribers and all of Time Warner Cable's 34 divisions were upgraded to accommodate digital cable. Digital subscribers receive significantly expanded cable network options, CD-quality audio music services, more pay-per-view choices, more channels of multiplexed premium services and other features such as enhanced parental control options. The digital set-top boxes delivered to subscribing customers also offers a digital interactive program guide and access to Time Warner Cable's video on demand offerings.

On Demand Services

As of December 31, 2002, Time Warner Cable offered video on demand services in 32 of its 34 divisions. Video on demand enables digital subscribers to instantaneously purchase movies and other programming, and to utilize VCR-like functions (such as pause, rewind and fast-forward) while watching these programs. Subscribers are charged for video on demand on a per-use basis.

As of December 2002, Time Warner Cable offered subscription video on demand in 32 of its 34 divisions. Subscription video on demand provides digital customers the ability to view an array of content associated with a particular content provider. Subscription video on demand uses the same technology and offers the same features as video on demand, but subscriber access is charged on a monthly rather than a per-use basis. Subscription video on demand is currently offered in connection with premium channels such as HBO and it is expected that other programming will be available over time.

HDTV

Pursuant to FCC regulation, television broadcast stations have been granted additional over-the-air spectrum to provide, under a prescribed rollout schedule, high definition and digital television signals to the public. Time Warner Cable believes its upgraded hybrid fiber optic/coaxial cable architecture provides a technologically superior means of distributing HDTV signals. To date, Time Warner Cable has agreed to carry the high definition television signals and other digital signals broadcast by television stations owned and operated by the ABC, CBS, NBC and Fox networks, and also by nearly all public television stations in Time Warner Cable's operating areas. Time Warner Cable is seeking high definition carriage arrangements with other broadcasters. Time Warner Cable is also carrying the HDTV versions of HBO and Showtime in certain areas.

Digital Video Recorders

Beginning in August, 2002, Time Warner Cable began to offer customers in some of its systems set-top boxes with integrated digital video recorders, or "DVRs," for an additional monthly charge. DVR users can record programming on a hard drive built into the set-top box through the interactive program guide and view the recorded programing using VCR-like functions such as pause, rewind and fast-forward. Furthermore, DVRs give users the ability to pause even "live" television. Time Warner Cable intends to expand the deployment of DVR-enabled set-top boxes during 2003.

High Speed Data Services

Internet Services

Time Warner Cable's residential customers can choose from a variety of ISPs, including TWE's Road Runner and America Online's AOL For Broadband services. High speed data customers connect their personal computers (PCs) to Time Warner Cable's two-way hybrid fiber optic/coaxial plant using a cable modem. High speed data customers pay a flat monthly fee for access to their ISP's features, which typically include Internet access and email. Time Warner Cable also offers a home networking option for an additional monthly fee, which allows a customer to connect multiple PCs to a single cable modem.

As of December 31, 2002, Time Warner Cable had 2.5 million high speed data subscribers. High speed data subscribers include residential subscribers, as well as commercial and bulk (e.g., apartment buildings and universities) subscribers. Due to their nature, commercial and bulk subscribers are charged a different amount than residential subscribers.

Time Warner Cable offers its Road Runner branded, high speed data service to both residential and commercial customers. In connection with the TWE-A/N Restructuring, TWE and an affiliate of AOL Time Warner effectively acquired Advance/Newhouse's 17% interest in Road Runner thereby increasing AOL Time Warner's ownership to approximately 82% on a fully attributed basis. As a result of the termination of Advance/Newhouse's minority rights in Road Runner, TWE consolidated Road Runner with its results retroactive to January 1, 2002. As of December 31, 2002, the Road Runner service was carried in all of Time Warner Cable's 34 divisions.

Time Warner Cable's provision of the AOL For Broadband service and its obligation to make multiple ISP services available to its customers are subject to compliance with the terms of the FTC Consent Decree and the FCC Order entered in connection with the regulatory clearance of the AOL-Time Warner Merger. (See "Regulation and Legislation" below, for a description of these terms).

Voice Services

Commencing in 2002, Time Warner Cable has engaged in voice services trials utilizing a technology known as Voice over Internet Protocol or "VoIP." These trials enable participating Time Warner Cable residential high speed data users to make and receive calls using a traditional telephone handset connected to a cable modem. Time Warner Cable expects to begin the commercial launch of VoIP service in some of its divisions in 2003.

Competition

Time Warner Cable's video and high speed data services face strong competition from a wide variety of alternative delivery sources. In the future, technological advances will most likely increase the number of alternatives available to its customers. In general, Time Warner Cable's video and high speed data business faces competition from other information and entertainment providers, as well as competition from other media for advertising dollars.

DBS. Time Warner Cable's video services face competition from satellite services, such as DirecTV and the Dish Network, which offer satellite-delivered pre-packaged programming services that can be received by relatively small and inexpensive receiving dishes. The video services provided by these satellite providers are comparable, in many respects, with Time Warner Cable's analog and digital video services. In many metropolitan areas, satellite services now also include local broadcast signals.

"Online" Competition. Time Warner Cable's high speed data service faces competition from a variety of companies that offer other forms of "online" services, including DSL high speed data service and dial-up services over ordinary telephone lines. Monthly prices of dial-up services are typically less expensive than broadband services. Other developing new technologies, such as Internet service via satellite or wireless connections, also compete with cable and cable modem services.

Overbuilds. Under the Cable Television Consumer Protection and Competition Act of 1992, franchising authorities are prohibited from unreasonably refusing to award additional franchises. As a result, from time to time, Time Warner Cable faces competition from overlapping cable systems operating in its franchise areas, including municipally-owned systems.

SMATV (Satellite master antenna television). Additional competition comes from private cable television systems servicing condominiums, apartment complexes and certain other multiple dwelling units, often on an exclusive basis, with local broadcast signals and many of the same satellite-delivered program services offered by franchised cable television systems. Some SMATV operators now offer voice and high speed Internet services.

MMDS/Wireless Cable (Multichannel microwave distribution services). Time Warner Cable faces competition from wireless cable operators, including digital wireless operators, who use terrestrial microwave technology to distribute video programming. Some MMDS operators now offer voice and high speed Internet services.

Telephone Companies. Time Warner Cable also faces competition from telephone companies. Under the 1996 Telecommunications Act, telephone companies are now free to enter the retail video distribution business within their local exchange service areas, including through satellite, MMDS and SMATV, as traditional franchised cable system operators or as operators of "open video systems" subject to local authorizations and local fees.

Consumer Electronics Manufacturers. To the extent that Time Warner Cable's products and services converge with theirs, Time Warner Cable may compete with the manufacturers of consumer electronics products.

Additional Competition. In addition to multichannel video providers, cable television systems compete with all other sources of news, information and entertainment, including over-the-air television broadcast reception, live events, movie theaters, home video products and the Internet.

FILMED ENTERTAINMENT

TWE's Filmed Entertainment businesses produce and distribute theatrical motion pictures, television shows, animation and other programming, distribute home video product and license rights to TWE's programs and characters. All of the foregoing businesses are principally conducted by Warner Bros., which is a division of TWE. Following the completion of the TWE Restructuring, the Warner Bros. division will become a wholly owned subsidiary of AOL Time Warner.

Warner Bros. Feature Films

Warner Bros. Pictures produces feature films both wholly on its own and under co-financing arrangements with others, and also distributes completed films produced and financed by others. The terms of Warner Bros. Pictures' agreements with independent producers and other entities are separately negotiated and vary depending upon the production, the amount and type of financing by Warner Bros., the media and territories covered, the distribution term and other factors.

Warner Bros. Pictures' strategy focuses on offering a diverse slate of films with a mix of genres, talent and budgets that includes four to six "event" movies per year. In response to the rising cost of producing theatrical films, Warner Bros. Pictures has entered into a number of joint venture agreements with other companies to co-finance films, decreasing its financial risk while in most cases retaining substantially all worldwide distribution rights. During 2002, Warner Bros. Pictures released a total of 26 original motion pictures for theatrical exhibition, of which 6 were wholly financed by Warner Bros. Pictures and 20 that were financed with or by others. A total of 25 motion pictures are currently slated to be released during 2003, of which 7 are wholly financed by Warner Bros. Pictures and 18 financed with or by others.

Warner Bros. Pictures' joint venture arrangements include a joint venture with Village Roadshow Pictures to co-finance the production of motion pictures; and an arrangement with Gaylord Entertainment ("Gaylord") to co-finance the production of motion pictures with medium to high budgets, and with Gaylord's wholly owned subsidiary, Pandora Investments SARL, to co-finance the production of lower budget pictures.

Warner Bros. Pictures has distribution servicing agreements with Morgan Creek Productions Inc. ("Morgan Creek") through December 2003 pursuant to which, among other things, Warner Bros. provides domestic distribution services for all Morgan Creek motion pictures and certain foreign distribution services for selected motion pictures in selected territories. Warner Bros. Pictures has a distribution arrangement with Franchise Entertainment LLC under which, for certain motion pictures, it has domestic distribution rights and foreign distribution rights in selected territories. Additionally, Warner Bros. has an exclusive distribution arrangement with Alcon Entertainment ("Alcon") for distribution of all of Alcon's motion pictures in domestic and certain foreign territories, and an exclusive worldwide distribution arrangement with the newly created Shangri-La Entertainment, LLC.

Home Video

Warner Home Video ("WHV") distributes for home video use DVDs and videocassettes containing filmed entertainment product produced or otherwise acquired by Warner Bros. Pictures, Castle Rock, New Line, Home Box Office, Turner Broadcasting System, Inc. ("TBS") and WarnerVision.

WHV also distributes other companies' product, including DVDs and videocassettes for BBC, PBS and National Geographic in the U.S., ICON in the UK and Australia, and France Television and Canal+ in France.

WHV sells and/or licenses its product in the U.S. and in major international territories to retailers and/or wholesalers through its own sales forces, with warehousing and fulfillment handled by divisions of Warner Music Group and third parties. In some countries, WHV's product is distributed through licensees. DVD product is replicated by Warner Music Group companies and third parties. Video-cassette product is

manufactured under contract with independent duplicators. WHV released 25 titles on DVD and videocassette in the U.S. in 2002 that generated sales of more than one million units each.

Since inception of the DVD format, WHV has released over 1,500 DVD titles in the U.S. and international markets, led by worldwide sales of *Harry Potter and the Sorcerer's Stone,* which has sold 23 million DVD units. DVD is the fastest selling consumer electronics product of all time, with an installed base at December 31, 2002 of over 40 million households in the U.S. and an additional 55.4 million households internationally (including China).

Television

Warner Bros. is one of the world's leading suppliers of television programming, distributing programming in more than 175 countries and in more than 40 languages. Warner Bros. both develops and produces new television series, made-for-television movies, mini-series, reality-based entertainment shows and animation programs and also distributes television programming for exhibition on all media. The distribution library owned or managed by Warner Bros. currently has more than 6,500 feature films, approximately 38,000 television titles, and 14,000 animated titles (including 1,500 classic animated shorts).

Warner Bros.' television programming is primarily produced by Warner Bros. Television ("WBTV"), which produces primetime dramatic and comedy programming for the major networks, and Telepictures Productions ("Telepictures"), which specializes in reality-based and talk/variety series for the syndication and primetime markets. During the 2002-03 season, WBTV produced hits such as *Smallville, Gilmore Girls* and *Everwood* for The WB Network and *ER, Friends, The West Wing, The Drew Carey Show, George Lopez, Third Watch* and *Without a Trace.* Telepictures has primetime hits *The Bachelor* and *The Bachelorette* as well as first-run syndication staples such as *Extra.*

Warner Bros. Animation is responsible for the creation, development and production of contemporary television and feature film animation, as well as for the creative use and production of classic animated characters from Warner Bros.', TBS's and DC Comics' libraries, including *Looney Tunes* and the Hanna-Barbera libraries.

Backlog

Backlog represents the future revenue not yet recorded from cash contracts for the licensing of theatrical and television programming for pay cable, network, basic cable and syndicated television exhibition. Backlog for all of TWE's filmed entertainment companies amounted to $3.2 billion at December 31, 2002, compared to $3.5 billion at December 31, 2001 (including amounts relating to the intercompany licensing of film product to TWE's cable television networks of $405 million and $433 million as of December 31, 2002 and December 31, 2001, respectively). The backlog excludes advertising barter contracts.

Consumer Products

Warner Bros. Consumer Products licenses rights in both domestic and international markets to the names, likenesses, images, logos and other representations of characters and copyrighted material from the films and television series produced or distributed by Warner Bros., including the superhero characters of DC Comics, Hanna-Barbera characters, classic films and the literary and feature film phenomenon, *Harry Potter.*

Competition

The production and distribution of theatrical motion pictures, television and animation product and videocassettes/DVDs are highly competitive businesses, as each vies with the other, as well as with other forms of entertainment and leisure time activities, including video games, the Internet and other computer-related activities for consumers' attention. Furthermore, there is increased competition in the television industry evidenced by the increasing number and variety of broadcast networks and basic cable and pay television services now available. Despite this increasing variety of networks and services, access to primetime and syndicated television slots has actually tightened as networks and owned and operated stations increasingly

source programming from content producers aligned with or owned by their parent companies. There is active competition among all production companies in these industries for the services of producers, directors, writers, actors and others and for the acquisition of literary properties. With respect to the distribution of television product, there is significant competition from independent distributors as well as major studios. Piracy and unauthorized recording, transmission and distribution of content are increasing challenges. Revenues for filmed entertainment product depend in part upon general economic conditions, but the competitive position of a producer or distributor is still greatly affected by the quality of, and public response to, the entertainment product it makes available to the marketplace.

Warner Bros. also competes in its character merchandising and other licensing activities with other licensors of character, brand and celebrity names.

NETWORKS

TWE's Networks business consists principally of the multichannel HBO and Cinemax pay television programming services (collectively, the "Home Box Office Services"), operated by the Home Box Office division of TWE ("Home Box Office"). The WB Television Network ("The WB"), a broadcast television network, is operated as a limited partnership in which WB Communications (currently a subsidiary of TWE) holds a 77% interest in the network and is the network's managing general partner. Upon the completion of the TWE Restructuring, both Home Box Office and WB Communications will become wholly owned subsidiaries of AOL Time Warner.

Home Box Office

HBO, operated by the Home Box Office division of TWE, is the nation's most widely distributed pay television service, which together with its sister service, Cinemax, had approximately 39 million subscriptions as of December 31, 2002. Both HBO and Cinemax are made available in a multichannel format and through the newly introduced subscription video on demand enhancement, which enables participating digital cable subscribers to choose programs at a time of their choice with VCR-like functionality. Through various joint ventures, HBO-branded services are distributed in Latin America, Asia and Eastern Europe.

The Home Box Office Services distribute their programming via cable and other distribution technologies, including satellite distribution and generally enter into separate multi-year agreements, known as affiliation agreements, with distributors that have agreed to carry them. Distributors that have agreed to carry a cable network or service are known as affiliates. The Home Box Office Services are commercial-free and generate revenue principally from monthly subscriptions paid by affiliates for subscribers who are generally free to cancel their subscriptions at any time. The Home Box Office Services and their affiliates engage in ongoing marketing and promotional activities to retain existing subscribers and acquire new subscribers. Although the Home Box Office Services believe prospects of continued carriage and marketing of their respective Networks by the larger affiliates are good, the loss of one or more of them as distributors of any individual network or service could have a material adverse effect on their respective businesses. The recent combination of Comcast and AT&T Broadband, two of the largest multiple-system cable operators that distribute the Home Box Office Services, reflects a growing consolidation among the Services' distributors. In addition, one of the larger DBS services has been seeking a buyer. This trend towards consolidation could impact the Home Box Office Services' prospects for securing carriage agreements on favorable terms.

A major portion of the programming on HBO and Cinemax consists of recently released, uncut and uncensored theatrical motion pictures. Home Box Office's practice has been to negotiate licensing agreements of varying duration for such programming with major motion picture studios, and independent producers and distributors in order to ensure continuing access to theatrical motion pictures. These agreements typically grant pay television exhibition rights to recently released and certain older films owned by the particular studio, producer or distributor in exchange for a negotiated fee, which may be a function of, among other things, the films' box office performances.

HBO also defines itself by the exhibition of award-winning original movies and mini-series, dramatic and comedy series, such as *The Sopranos, Sex and the City,* and *Six Feet Under* and boxing matches, sports documentaries and sports news programs, as well as concerts, comedy specials, family programming and documentaries. HBO received 24 Primetime Emmy Awards® in 2002 in a variety of categories, including Best Miniseries, Best Made for Television Movie and Best Directing for both Drama and Comedy Series.

Home Box Office has also increased its involvement in the financing and production of theatrical motion pictures, including the surprise hit *My Big Fat Greek Wedding* and the critically praised *Real Women Have Curves.*

A division of Home Box Office produces *Everybody Loves Raymond,* now in its seventh season on CBS and its first syndication cycle. Home Box Office also develops and produces programming for other networks. HBO Sports, a division of Home Box Office, operates HBO Pay-Per-View, an entity that distributes pay-per-view prize fights and other pay-per-view events. HBO Video, also a division of Home Box Office, distributes videocassettes and DVDs of a number of HBO's original movies, miniseries and dramatic and comedy series, including *Band of Brothers, The Sopranos* and *Sex and the City.*

The WB Television Network

The WB provides a national group of affiliated television stations with 13 hours of prime time plus 2 additional hours of Sunday access programming during six days of the week (Sunday through Friday). The WB's programming is primarily aimed at teens and young adults. The network's line-up of programs includes established series such as *7th Heaven, Everwood, Dawson's Creek, Charmed, Reba, Smallville* and *Gilmore Girls.* As of December 31, 2002, Kids' WB!, a programming service for young viewers, presented 14 hours of animated programming per week, including *Yu-Gih-Oh* and *Pokemon.*

As of December 31, 2002, 84 primary and 8 secondary affiliates provide coverage for The WB in the top 100 television markets. Additional coverage reaching approximately 8.5 million homes in smaller markets is provided by The WB 100+ Station Group, a venture between The WB and local broadcasters under which WB programming is disseminated over the facilities of local cable operators.

Advertising revenue on The WB is comprised of consumer advertising, which is sold exclusively on a national basis, with local affiliates of The WB selling local advertising. Advertising contracts generally have terms of one year or less. Advertising revenue is generated from a wide variety of categories, including financial and business services, food and beverages, automotive, entertainment and office supplies and equipment. Advertising revenue is a function of the size and demographics of the audience delivered, the "CPM," which is the cost per thousand viewers delivered, and the number of units of time sold. Units sold and CPM's are influenced by the quantitative and qualitative characteristics of the audience of each network as well as overall advertiser demand in the marketplace.

Tribune Broadcasting owns a 22.25% interest in The WB and the balance is held by WB Communications, a division of TWE. Following the completion of the TWE Restructuring, WB Communications will be a wholly owned subsidiary of AOL Time Warner.

Other Network Interests

TWE has held a 50% interest in Comedy Central, an advertiser-supported basic cable television service that provides comedy programming. Following the completion of the TWE Restructuring, such interest will be held by a wholly owned subsidiary of AOL Time Warner. Comedy Central was available in approximately 81 million homes as of December 31, 2002.

TWE has held a 50% interest in Court TV, which was available in approximately 75 million homes as of December 31, 2002. Following the completion of the TWE Restructuring, such interest will be held by a wholly owned subsidiary of AOL Time Warner. Court TV is an advertiser-supported basic cable television service whose programming aims to provide an informative and entertaining view of the American system of

justice. Focusing on "investigative television," Court TV broadcasts trials by day and original programs such as *Forensic Files* and popular off-network series such as *NYPD Blue* in the evening.

Competition

Each of TWE's networks competes with other television programming services for marketing and distribution by cable and other distribution systems. All of the networks compete for viewers' attention and audience share with all other forms of programming provided to viewers, including broadcast networks, local over-the-air television stations, other pay and basic cable television services, home video, pay-per-view services, online activities and other forms of news, information and entertainment. In addition, the networks face competition for programming with those same commercial television networks, independent stations, and pay and basic cable television services, some of which have exclusive contracts with motion picture studios and independent motion picture distributors. The WB competes for advertising with numerous direct competitors and other media.

REGULATION AND LEGISLATION

TWE's cable television system, cable and broadcast television network and original programming businesses are subject, in part, to regulation by the Federal Communications Commission ("FCC"), and the cable television system business is also subject to regulation by some state governments and substantially all local governments where TWE has cable systems. In addition, in connection with regulatory clearance of the AOL-Time Warner merger, AOL Time Warner and its subsidiaries, including TWE's cable system and Internet businesses are subject to compliance with the terms of the Consent Decree (the "Consent Decree") issued by the Federal Trade Commission ("FTC"), the Order to Hold Separate issued by the FTC, the Memorandum Opinion and Order ("Order") issued by the FCC. TWE is also subject to an FTC consent decree (the "Turner Consent Decree") as a result of the FTC's approval of Time Warner's acquisition of Turner Broadcasting System, Inc. in 1996. The terms of the Order to Hold Separate entered by the FTC in connection with the AOL-Time Warner Merger (which terms were described in TWE's Annual Report on Form 10-K for the year ended December 31, 2000) have been satisfied.

The following is a summary of the terms of these orders as well as current significant federal, state and local laws and regulations affecting the growth and operation of these businesses. In addition, various legislative and regulatory proposals under consideration from time to time by Congress and various federal agencies have in the past materially affected, and may in the future materially affect, TWE.

FTC Consent Decree

On December 14, 2000, the FTC issued a consent decree in connection with the AOL Time Warner Merger. The consent decree provided that, with the exception of Road Runner, Time Warner Cable is not permitted to launch an affiliated ISP, like the AOL Broadband service, in its 20 largest divisions, until it launched the EarthLink service, an unaffiliated ISP, on those systems. The consent decree also provided that Time Warner Cable had to enter into agreements with two additional unaffiliated ISPs within 90 days after launching an affiliated ISP. In addition, the consent decree required that, in its remaining divisions, Time Warner Cable had to enter into agreements with three unaffiliated providers within 90 days after launching an affiliated ISP. Each of these agreements had to be approved by the FTC.

Time Warner Cable has now entered into, and received FTC approval for, agreements with the required number of unaffiliated ISPs in all covered divisions. If any of the required agreements expires or is terminated during the term of the consent decree, Time Warner Cable will be required to replace it with another approved agreement. Although offering multiple ISPs was required by the terms of the consent decree, Time Warner Cable has entered into agreements with unaffiliated ISPs beyond the number required by the consent decree.

The consent decree also requires that Time Warner Cable's FTC-approved agreements contain a provision that requires Time Warner Cable to give notice to the unaffiliated ISPs whenever AOL Time

Warner enters into an AOL For Broadband affiliation agreement with any one of six specified cable operators. In that event, Time Warner Cable is required to give each unaffiliated ISP the option to adopt all terms and conditions of the relevant AOL For Broadband affiliation agreement. In addition, the consent decree requires that AOL Time Warner continue to offer and promote DSL service in areas served by Time Warner Cable to the same extent and on terms similar to the terms offered in areas not served by Time Warner Cable. TWE's obligations under the consent decree expire on April 17, 2006.

FCC Memorandum Opinion and Order

On January 11, 2001, the FCC issued an Order imposing certain requirements over a five-year period regarding Time Warner Cable's provision of multiple ISPs. Specifically, the Order requires Time Warner Cable to provide ISP customers with a list of available ISPs upon request, to allow ISPs to determine the content on their first screen, and to allow ISPs to have direct billing arrangements with the subscribers they obtain. The Order prohibits Time Warner Cable from requiring customers to go through an affiliated ISP to reach an unaffiliated ISP, from requiring ISPs to include particular content, and from discriminating on the basis of affiliation with regard to technical system performance.

The FCC's Order also imposes conditions regarding possible future enhancements to America Online's instant messaging service. The Order prohibits America Online from offering "advanced" instant messaging services (which are defined as streaming video applications that are not upgrades to America Online's current instant messaging products) that utilize a names and presence database ("NPD") over Time Warner Cable broadband facilities unless America Online satisfies one of three conditions: (i) America Online implements an industry-wide standard for server-to-server interoperability; (ii) America Online contracts with at least one unaffiliated provider of NPD based instant messaging services before offering "advanced" instant messaging and, within 180 days thereafter, enters into two additional such contracts; or (iii) America Online demonstrates that these conditions no longer serve the public interest due to materially changed circumstances. AOL Time Warner must also report to the FCC, every 180 days, its progress toward Instant Messaging interoperability. Conditions relating to AOL's instant messaging expire January 22, 2006.

In addition, the FCC's Order prohibits TWE from entering into any agreement with Comcast (formerly AT&T) that gives any ISP affiliated with AOL Time Warner exclusive carriage rights on any former AT&T cable system for broadband ISP services or that affects Comcast's ability to offer rates or other carriage terms to ISPs that are not affiliated with AOL Time Warner.

Turner FTC Consent Decree

TWE is also subject to the terms of a consent decree (the "Turner Consent Decree") entered in connection with the FTC's approval of the acquisition of Turner Broadcasting System, Inc. ("TBS") by Time Warner in 1996. Certain requirements imposed by the Turner Consent Decree, such as carriage commitments for Time Warner Cable for the rollout of at least one independent national news video programming service, have been fully satisfied by TWE. Various other conditions remain in effect, including certain restrictions which prohibit TWE from offering programming upon terms that (1) condition the availability of, or the carriage terms for, the HBO service upon whether a multichannel video programming distributor carries a video programming service affiliated with TBS; and (2) condition the availability of, or the carriage terms for, CNN, TBS Superstation and TNT upon whether a multichannel video programming distributor carries any video programming service affiliated with TWE. The Turner Consent Decree also imposes certain restrictions on the terms by which a Turner video programming service may be offered to an unaffiliated programming distributor that competes in areas served by Time Warner Cable.

Other conditions of the Turner Consent Decree prohibit Time Warner Cable from requiring, as a condition of carriage, that any national video programming vendor provide a financial interest in its programming service or that such programming vendor provide exclusive rights against any other multichannel programming distributor. In addition, Time Warner Cable may not discriminate on the basis of affiliation in the selection, terms or conditions of carriage for national video programming vendors.

The Turner Consent Decree also requires that any AOL Time Warner stock held by Liberty Media Corporation ("Liberty Media"), its former corporate parent, Tele-Communications, Inc. ("TCI"), which was merged with AT&T in 1999, as well as by the late Bob Magness and John C. Malone as individuals, be non-voting except that such securities are entitled to a vote of one-one hundredth (1/100) of a vote per share owned when voting with the outstanding common stock on the election of directors and a vote equal to the vote of the common stock with respect to corporate matters that would adversely change the rights or terms of these non-voting securities. Upon the sale of these non-voting securities to any independent third party, the securities may be converted into voting stock of AOL Time Warner. The Turner Consent Decree also prohibits Liberty Media, TCI (now Comcast), the late Bob Magness and John C. Malone as individuals, from holding ownership interests, collectively, of more than 9.2% of the fully diluted equity of AOL Time Warner. In 2002, Liberty Media sought to eliminate these restrictions from the Turner Consent Decree; the petition was denied by the FTC without prejudice on July 17, 2002. The Turner Consent Decree will expire in February 2007.

Cable System Regulation

Communications Act and FCC Regulation.

The Communications Act and the regulations and policies of the FCC affect significant aspects of Time Warner Cable's cable system operations, including subscriber rates; carriage of broadcast television stations, as well as the way Time Warner Cable sells its program packages to subscribers; the use of cable systems by franchising authorities and other third parties; cable system ownership; and use of utility poles and conduits.

Subscriber Rates. The Communications Act and the FCC's rules regulate rates for basic cable service and equipment in communities that are not subject to "effective competition," as defined by federal law. Where there is no effective competition, federal law authorizes franchising authorities to regulate the monthly rates charged by the operator for the minimum level of video programming service, referred to as basic service, which generally includes local broadcast channels and public access or governmental channels required by the franchise. This kind of regulation also applies to the installation, sale and lease of equipment used by subscribers to receive basic service, such as set-top boxes and remote control units. In many localities, Time Warner Cable is no longer subject to this rate regulation, either because the local franchising authority has not asked the FCC for permission to regulate or because the FCC has found that there is effective competition.

Carriage of Broadcast Television Stations and Other Programming Regulation. The Communications Act and the FCC's regulations contain broadcast signal carriage requirements that allow local commercial television broadcast stations to elect once every three years to require a cable system to carry their stations, subject to some exceptions, or to negotiate with cable systems the terms by which the cable systems may carry their stations, commonly called "retransmission consent." The most recent election by broadcasters was due on October 1, 2002 and became effective on January 1, 2003.

The Communications Act and the FCC's regulations require a cable operator to devote up to one-third of its activated channel capacity for the mandatory carriage of local commercial television stations. The Communications Act and the FCC's regulations give local non-commercial television stations mandatory carriage rights, but non-commercial stations do not have the option to negotiate retransmission consent for the carriage of their signals by cable systems. Additionally, cable systems must obtain retransmission consent for all "distant" commercial television stations except for commercial satellite-delivered independent "superstations," commercial radio stations, and some low-power television stations.

FCC regulations require Time Warner Cable to carry the signals of both commercial and non-commercial local digital-only broadcast stations and the digital signals of local broadcast stations that return their analog spectrum to the government and convert to a digital broadcast format. The FCC's rules give digital-only broadcast stations discretion to elect whether the operator will carry the station's signal in a digital or converted analog format, and the rules also permit broadcasters with both analog and digital signals to tie the carriage of their digital signals to the carriage of their analog signals as a retransmission consent condition. The FCC is continuing to consider further modifications to its digital broadcast signal carriage requirements.

The Communications Act also permits franchising authorities to require cable operators to set aside channels for public, educational and governmental access programming. Moreover, it requires a cable system with 36 or more activated channels to designate a significant portion of its channel capacity for commercial leased access by third parties to provide programming that may compete with services offered by the cable operator. The FCC regulates various aspects of such third-party commercial use of channel capacity on our cable systems, including the rates and some terms and conditions of the commercial use.

High Speed Internet Access. From time to time, industry groups, telephone companies, and ISPs have sought local, state and federal regulations that would require cable operators to sell capacity on their systems to ISPs under a common carrier regulatory scheme. Cable operators have successfully challenged regulations requiring this "forced access," although courts that have considered these cases have employed varying legal rationales in rejecting these regulations.

On March 15, 2002, the FCC released an order in which it determined that cable-modem service constitutes an "information service" rather than a "cable service" or a "telecommunications service," as those terms are used in the Communications Act. According to the FCC, this conclusion may permit but does not require it to impose "multiple ISP" requirements. The FCC has begun a rulemaking proceeding to consider whether it may and should do so and whether local franchising authorities should be permitted to do so. Several ISPs have appealed the FCC's order in federal court. If the ISPs prevail, cable operators may become subject to a requirement that they carry any ISP desiring carriage.

In the wake of the FCC's March 2002 order, Time Warner Cable, along with most other multiple system operators, stopped collecting and paying franchise fees on cable-modem revenues. However, the FCC has initiated a rulemaking to explore the consequences of its March 2002 order. In addition, several local franchising authorities have appealed the order in federal court, arguing that the FCC should have held that cable-modem service is a "cable service." Some local franchising authorities have also claimed that cable operators' failure to pay franchise fees on cable-modem services revenue constitutes a breach of their franchise agreement. To date, only a few local franchising authorities have filed lawsuits. Time Warner Cable is a defendant in one such lawsuit.

Ownership Limitations. There are various rules prohibiting joint ownership of cable systems and other kinds of communications facilities. Local telephone companies generally may not acquire more than a small equity interest in an existing cable system in the telephone company's service area. In addition, cable operators may not have more than a small interest in "multichannel multipoint distribution services" facilities or "satellite master antenna television" systems in their service areas. Finally, the FCC has been exploring whether it should prohibit cable operators from holding ownership interests in satellite operators.

The Communications Act also required the FCC to adopt "reasonable limits" on the number of subscribers a cable operator may reach through systems in which it holds an ownership interest. In September 1993, the FCC adopted a rule that was later amended to prohibit any cable operator from serving more than 30% of all cable, satellite and other multi-channel subscribers nationwide. The Communications Act also required the FCC to adopt "reasonable limits" on the number of channels that cable operators may fill with programming services in which they hold an ownership interest. In September 1993, the FCC imposed a limit of 40% of a cable operator's first 75 activated channels. In March 2001, a federal appeals court struck down both limits. The FCC is currently exploring whether it should re-impose any limits. Time Warner Cable believes that it is unlikely that the FCC will adopt limits as stringent as those struck down.

Pole Attachment Regulation. The Communications Act requires that utilities provide cable systems and telecommunications carriers with nondiscriminatory access to any pole, conduit or right-of-way controlled by the utility. The Communications Act also requires the FCC to regulate the rates, terms and conditions imposed by public utilities for cable systems' use of utility pole and conduit space unless state authorities demonstrate to the FCC that they adequately regulate pole attachment rates, as is the case in some states in which Time Warner Cable operates. In the absence of state regulation, the FCC administers pole attachment rates on a formula basis. The FCC's original rate formula governs the maximum rate utilities may charge for attachments to their poles and conduit by cable operators providing only cable services. The FCC also adopted a second rate formula that became effective in February 2001 and governs the maximum rate utilities may

charge for attachments to their poles and conduit by companies providing telecommunications services, including cable operators. Any increase in attachment rates resulting from the FCC's new rate formula is being phased in (in equal annual installments) over a five-year period that began in February 2001. The U.S. Supreme Court has upheld the FCC's jurisdiction to regulate the rates, terms and conditions of cable operators' pole attachments that are being used to provide both cable service and high speed data service.

Other Regulatory Requirements of the Communications Act and the FCC. The Communications Act also includes provisions regulating customer service, subscriber privacy, marketing practices, equal employment opportunity, technical standards and equipment compatibility, antenna structure notification, marking, lighting, emergency alert system requirements and the collection from cable operators of annual regulatory fees, which are calculated based on the number of subscribers served and the types of FCC licenses held.

There are also some regulatory requirements applicable to set-top boxes. Currently, many cable subscribers rent from their cable operator a set-top box that performs both signal-reception functions and conditional-access security functions. The lease rates cable operators charge for this equipment are subject to rate regulation to the same extent as basic cable service. In 1996, Congress enacted a statute seeking to allow subscribers to use set-top boxes obtained from third-party retailers. The most important of the FCC's implementing regulations requires cable operators to offer separate equipment providing only the conditional-access security function, so that subscribers can purchase boxes providing other functions from other sources and to cease placing into service new set-top boxes that have integrated conditional-access security. These regulations are scheduled to go into effect on January 1, 2005. Cable operators and consumer-electronics companies recently entered into a standard-setting agreement relating to interoperability between cable systems and reception equipment. Among other things, the agreement envisions consumer electronics devices with a slot for a conditional-access security card provided by the cable operator. The FCC has invited comment on whether it should issue regulations to implement that agreement. Meanwhile, industry groups are in the process of negotiating additional agreements.

Compulsory Copyright Licenses for Carriage of Broadcast Stations, Music Performance Licenses. Time Warner Cable's cable systems provide subscribers with, among other things, local and distant television broadcast stations. Time Warner Cable generally does not obtain a license to use this programming directly from program owners. Instead, it obtains this programming pursuant to a compulsory license provided by federal law, which requires it to make payments to a copyright pool. The elimination or substantial modification of the cable compulsory license could adversely affect Time Warner Cable's ability to obtain suitable programming and could substantially increase the cost of programming that remains available for distribution to its subscribers.

When Time Warner Cable obtains programming from third parties, it generally obtains licenses that include any necessary authorizations to transmit the music included in it. When Time Warner Cable creates its own programming and provides various other programming or related content, including local origination programming and advertising that it inserts into cable-programming networks, it is required to obtain any necessary music performance licenses directly from the rights holders. These rights are generally controlled by three music performance rights organizations, each with rights to the music of various artists. Time Warner Cable generally has obtained the necessary licenses, either through executed licenses or through procedures established by consent decrees entered into by some of the music performance rights organizations.

State and Local Regulation

Cable operators operate their systems under non-exclusive franchises. Franchises are awarded, and cable operators are regulated, by municipal or other local franchising authorities. In some states, there is cable regulation at the state level as well. Time Warner Cable believes it generally has good relations with state and local cable regulators.

Franchise agreements typically require payment of franchise fees and contain regulatory provisions addressing, among other things, upgrades, service quality, cable service to schools and other public institutions, insurance and indemnity bonds. The terms and conditions of cable franchises vary from jurisdiction to jurisdiction. The Communications Act provides protections against many unreasonable terms. In particular,

the Communications Act imposes a ceiling on franchise fees of five percent of revenues derived from cable service. Time Warner Cable generally passes the franchise fee on to its subscribers, listing it as a separate item on the bill.

Franchise agreements usually have a term of ten to 15 years from the date of grant, although some renewals may be for shorter terms. Franchises usually are terminable only if the cable operator fails to comply with material provisions. Time Warner Cable has not had a franchise terminated due to breach. After a franchise agreement expires, a franchising authority may seek to impose new and more onerous requirements, including requirements to upgrade facilities, to increase channel capacity and to provide various new services. Federal law, however, provides significant substantive and procedural protections for cable operators seeking renewal of their franchises. In addition, although Time Warner Cable occasionally reaches the expiration date of a franchise agreement without having a written renewal or extension, it generally has the right to continue to operate, either by agreement with the franchising authority or by law, while continuing to negotiate a renewal. In the past, substantially all of the material franchises relating to its systems have been renewed by the relevant local franchising authority, though sometimes only after significant time and effort. Despite its efforts and the protections of federal law, some Time Warner Cable franchises may not be renewed, and it may be required to make significant additional investments in its cable systems in response to requirements imposed in the course of the franchise renewal process.

Franchises usually require the consent of franchising authorities prior to the sale, assignment, transfer or change of control of a cable system. Federal law imposes various limitations on the conditions local authorities may impose and requires localities to act on such requests within 120 days.

Regulation of Telephony

As of March 1, 2003, it was unclear whether and to what extent regulators will subject Voice over Internet Protocol ("VoIP") service provided by cable operators to the same regulations that apply to regular telephone service provided by regular telephone companies. In particular, it is unclear whether and to what extent the "access charge" and "universal service" rules that apply to regular telephone service will also apply to VoIP service. Finally, it is possible that regulators will allow utility pole owners to charge cable operators offering VoIP service higher rates for pole rental than for traditional cable service and cable-modem service.

Network Regulation

Under the Act and its implementing regulations, vertically integrated cable programmers like the Turner Networks and the Home Box Office Services, are generally prohibited from offering different prices, terms, or conditions to competing unaffiliated multichannel video programming distributors unless the differential is justified by certain permissible factors set forth in the regulations. The rules also place certain restrictions on the ability of vertically integrated programmers to enter into exclusive distribution arrangements with cable operators. Certain other federal laws also contain provisions relating to violent and sexually explicit programming, including relating to the voluntary promulgation of ratings by the industry and requiring manufacturers to build television sets with the capability of blocking certain coded programming (the so-called "V-chip").

DESCRIPTION OF CERTAIN PROVISIONS OF THE TWE PARTNERSHIP AGREEMENT

In August 2002, AOL Time Warner, AT&T and Comcast, which in November 2002 acquired AT&T's broadband business, including AT&T's interest in TWE, entered into an agreement with respect to the TWE Restructuring, which is expected to be completed on March 31, 2003. The TWE Partnership Agreement will be amended in connection with the TWE Restructuring (as amended, the "New TWE Partnership Agreement"). The following description summarizes certain provisions of the TWE Partnership Agreement relating to the ongoing operations of TWE both before and after the completion of the TWE Restructuring. Such description does not purport to be complete and is subject to, and is qualified in its entirety by reference

to, the provisions of the TWE Partnership Agreement as in effect immediately prior to the completion of the TWE Restructuring (hereinafter referred to as the "original TWE Partnership Agreement") and the New TWE Partnership, as applicable.

Management and Operations of TWE

Partners. Under the original TWE Partnership Agreement, the limited partnership interests in TWE are held by the Class A Partners, consisting of two Comcast Trusts and two wholly owned subsidiaries of AOL Time Warner. The general partnership interests in TWE are held by the Class B Partners, consisting of wholly owned subsidiaries of AOL Time Warner (the "AOLTW General Partners").

Following the TWE Restructuring, the partnership interests in TWE will be recapitalized with one of the Comcast Trusts holding a partnership interest representing a 4.7% residual equity interest in TWE, with a subsidiary of AOL Time Warner holding a partnership interest consisting of a $2.4 billion preferred component and a 1% residual equity interest in TWE and with TWC Inc. holding a partnership interest representing a 94.3% residual equity interest in TWE.

Upon the completion of the TWE Restructuring, TWC Inc. will be the general partner of TWE and a subsidiary of AOL Time Warner and one of the Comcast Trusts will be the limited partners of TWE. The designations "Class A Partner" and "Class B Partner" will no longer apply.

Board of Representatives. Under the original TWE Partnership Agreement, the business and affairs of TWE are managed under the direction of a board of representatives (the "Board of Representatives" or the "Board"). Both AOL Time Warner and the Comcast Trusts are entitled to appoint representatives to the Board. The AOL Time Warner representatives control all Board decisions except for certain limited, significant matters affecting TWE as a whole, which matters also require the approval of the Comcast Trusts' representatives. The managing general partners, both of which are wholly owned subsidiaries of AOL Time Warner, may take any action without the approval or consent of the Board if such action otherwise may be authorized by the AOL Time Warner representatives without the approval of the Comcast Trusts' representatives.

Following the completion of the TWE Restructuring, TWC Inc., as the general partner of TWE, will have the exclusive authority to manage the business and affairs of TWE, subject to certain protections over extraordinary actions afforded the Comcast Trust under the New TWE Partnership Agreement. These protections consist of consent rights over the dissolution or liquidation of TWE and the transfer of control of TWE to a third party, in each case, prior to the second anniversary of the closing of the TWE Restructuring, and the right to approve of certain amendments to the New TWE Partnership Agreement.

Day-to-Day Operations. TWE is, and will continue to be following the closing of the TWE Restructuring, managed on a day-to-day basis by the officers of TWE.

Certain Covenants

Covenant Not to Compete. Under the original TWE Partnership Agreement, AOL Time Warner and its controlled affiliates are prohibited from competing or owning an interest in the principal lines of business of TWE — cable television systems, pay cable programming networks and filmed entertainment, subject to certain exceptions (which include TBS and its businesses). The New TWE Partnership Agreement does not contain such prohibitions.

Transactions with Affiliates. Under the original TWE Partnership Agreement, subject to agreed upon exceptions for certain types of arrangements, TWE has agreed not to enter into transactions with any partner or any of its affiliates other than on an arm's-length basis. The New TWE Partnership Agreement will require that transactions between TWC Inc., as the managing partner, and TWE be conducted on an arm's-length basis, with management, corporate or similar services being provided by TWC Inc. on a no mark-up basis with fair allocations of administrative costs and general overhead.

Registration Rights and Other Exit Rights

Registration Rights under TWE Partnership Agreement. Both AOL Time Warner and the Comcast Trusts have registration rights under the original TWE Partnership Agreement. The parties have agreed not to exercise any of their registration rights pending the closing of the TWE Restructuring. Following the closing of the TWE Restructuring, the New TWE Partnership Agreement will not provide for registration rights in respect of their interests in TWE.

Sale and Appraisal Rights of Comcast Trust. Under a partnership interest sale agreement (the "Partnership Interest Sale Agreement") to be entered in connection with the closing of the TWE Restructuring, at any time following the second anniversary of the closing of the TWE Restructuring, the Comcast Trust holding a limited partnership interest in TWE has the right to require TWC Inc. to purchase all or a portion of its partnership interest in TWE at an appraised fair market value, subject to a right of first refusal in favor of AOL Time Warner. The fair market value of the interest will be determined separately by two investment banks, one appointed by the Comcast Trust and one appointed by TWC Inc. If the higher of the two valuations presented by the investment banks is within 110% of the lower valuation, then the fair market value of the offered partnership interest will be the average of the two valuations. If the higher valuation is not within 110% of the lower valuation, a third investment bank selected by the other two investment banks, or, if they are unable to agree on a third investment bank, an investment bank selected by the American Arbitration Association will choose one of the two valuations to be the fair market value of the offered partnership interest, and that determination will be final and binding.

Following the second anniversary of the closing of the TWE Restructuring, the Comcast Trust also has the right, at any time, to sell all or a portion of its interest in TWE to a third party in a bona fide transaction, subject to a right of first refusal, first, in favor of AOL Time Warner and, second, in favor of TWC Inc. If TWC Inc. and AOL Time Warner do not collectively elect to purchase all of the Comcast Trust's offered partnership interest, the Comcast Trust may proceed with the sale of the offered partnership interest to that third party on terms no more favorable than those offered to TWC Inc. and AOL Time Warner, if that third party agrees to be bound by the same terms and conditions applicable to the Comcast Trust as a limited partner in TWE and under the Partnership Interest Sale Agreement.

The purchase price payable by TWC Inc. or AOL Time Warner as consideration for the Comcast Trust's partnership interest may be cash; common stock, if the common stock of the purchaser is then publicly traded, or a combination of both. Any AOL Time Warner or TWC Inc. common stock issued to purchase the Comcast Trust's partnership interests will be valued based on the average of the volume-weighted trading price of the common stock for a period of time prior to issuance and will be entitled to registration rights.

Redemption of Preferred Component. The preferred component of AOL Time Warner's partnership interest must be redeemed by TWE following the 20th anniversary of the closing of the TWE Restructuring.

Certain Put Rights of the Class A Partners

The put rights held by the TWE Class A Partners under the original TWE Partnership Agreement that are triggered upon a change of control of AOL Time Warner will terminate upon the closing of the TWE Restructuring.

Restrictions on Transfer

The original TWE Partnership Agreement prevents the general partners and limited partners of TWE from transferring their partnership interests, subject to a variety of exceptions.

Following the TWE Restructuring, the New TWE Partnership Agreement will provide that TWC Inc. and AOL Time Warner may generally transfer their partnership interests in TWE at any time, except that TWC Inc. may not transfer control of TWE before the third anniversary of the TWE Restructuring.

The New TWE Partnership Agreement will provide that the Comcast Trust may not transfer its partnership interest in TWE at any time prior to the second anniversary of the closing of the TWE

Restructuring and, after that, the Comcast Trust may only transfer its partnership interest pursuant to the Partnership Interest Sale Agreement.

Following the TWE Restructuring, no transfer of partnership interests may be made by any partner through securities markets, and no transfer may be made by any partner if the transfer causes TWE to have more than 100 partners or would result in, or have a material risk of, TWE being treated as a corporation for federal income tax purposes.

DESCRIPTION OF CERTAIN PROVISIONS OF THE TWE-A/N PARTNERSHIP AGREEMENT

The following description summarizes certain provisions of the TWE-A/N Partnership Agreement relating to the ongoing operations of TWE-A/N. Such description does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the provisions of the TWE-A/N Partnership Agreement.

Partners of TWE-A/N

As of March 1, 2003, the general partnership interests in TWE-A/N are held by TWE, Paragon Communications, an indirect wholly owned subsidiary of AOL Time Warner ("Paragon" and, together with TWE, the "AOLTW Partners"), and Advance/Newhouse Partnership, a wholly owned subsidiary of Advance Publications Inc. and Newhouse Broadcasting Corporation ("A/N"). The AOLTW Partners also hold preferred partnership interests. As part of the TWE Restructuring, expected to be completed on March 31, 2003, the interests held by Paragon will be transferred to TWC Inc.

Recent Restructuring of TWE-A/N

The TWE-A/N cable television joint venture was formed by TWE and Advance/Newhouse in December, 1995. A restructuring of the partnership was completed during 2002. As a result of this restructuring, cable systems and their related assets and liabilities serving 2.1 million subscribers as of December 31, 2002, located primarily in Florida (the "A/N Systems"), were transferred to a subsidiary of TWE-A/N (the "A/N Subsidiary"). As part of the restructuring, effective August 1, 2002, A/N's interest in TWE-A/N was converted into an interest that tracks the economic performance of the A/N Systems, while AOL Time Warner and TWE retain the economic interests and associated liabilities in the remaining TWE-A/N cable systems. Also, in connection with the restructuring, AOL Time Warner effectively acquired A/N's interest in Road Runner. All of the systems owned by TWE-A/N and the A/N Subsidiary continue to support multiple ISPs, including AOL for Broadband, Road Runner and EarthLink. TWE-A/N's financial results, other than the results of the A/N Systems, are consolidated with TWE's. (For additional information, see Management's Discussion and Analysis of Results of Operations and Financial Condition, "Recent Developments — Restructuring of TWE-A/N and Road Runner Partnerships" at pages F-4 through F-5).

Management and Operations of TWE-A/N

Management Powers and Services Agreement. Subject to the requirement to act by unanimous consent with respect to some actions as described below, TWE is the managing partner, with exclusive management rights of TWE-A/N, other than with respect to the A/N Systems. As managing partner, TWE manages TWE-A/N, other than the A/N Systems, on a day-to-day basis. Also, subject to the requirement to act by unanimous consent with respect to some actions as described below, A/N has authority for the supervision of the day-to-day operations of the A/N Subsidiary and the A/N systems. TWE entered into a services agreement with A/N and the A/N Subsidiary under which TWE agreed to exercise various management functions, including oversight of programming and certain engineering-related services. TWE and A/N also agreed to periodically discuss cooperation with respect to new product development.

Actions Requiring Unanimous Consent. Some actions cannot be taken by TWE-A/N, TWE or A/N without the unanimous consent of the AOLTW Partners and A/N or the unanimous consent of an executive committee consisting of members designated by the AOLTW Partners and A/N. These actions include, among other things:

- any merger, consolidation or disposition of all or substantially all of the assets of TWE-A/N (excluding the A/N Subsidiary) or the A/N Subsidiary;
- any liquidation or dissolution of TWE-A/N or the A/N Subsidiary;
- specified incurrences of debt by TWE-A/N or by the A/N Subsidiary; and
- admission of a new partner or other issuances of equity interests in TWE-A/N or the A/N Subsidiary.

Restrictions on Transfer

AOLTW Partners. Any AOLTW Partner is generally permitted to directly or indirectly dispose of its entire partnership interest at any time so long as the transferee is a wholly owned affiliate of TWE (in the case of transfers by TWE) or TWE, AOL Time Warner or a wholly owned affiliate of TWE or AOL Time Warner (in the case of transfers by Paragon). In addition, the partnership interests of TWE-A/N held by Paragon may be transferred directly or indirectly to any permitted transferee of partnership interests of TWE-A/N held by TWE so long as AOL Time Warner controls such transferee and continues to own, directly or indirectly, at least (a) 43.75% of the residual equity capital of TWE, if such disposition occurs prior to the date on which TWE's Class A Partners have received cash distributions of $500 million per $1 billion of investment, or (b) 35% of the residual equity capital of TWE if such disposition occurs after such date (the "AOLTW Minimum Interest"). The AOLTW Partners are also allowed to transfer their partnership interests in TWE-A/N pursuant to certain types of restructurings or liquidations of TWE. AOL Time Warner and its subsidiaries, including TWE, are generally allowed to issue equity interests so long as AOL Time Warner continues to own, directly or indirectly, at least the AOLTW Minimum Interest.

A/N Partner. A/N is generally permitted to directly or indirectly dispose of its entire partnership interest at any time so long as the transfer is to certain members of the Newhouse family or certain affiliates of A/N. A/N is also allowed to transfer its partnership interest pursuant to certain restructurings of A/N.

Restructuring Rights of the Partners

TWE and A/N each have the right to cause TWE-A/N to be restructured at any time. Upon a restructuring, TWE-A/N would be required to distribute the A/N Subsidiary with all of the A/N Systems to A/N in complete redemption of A/N's interests in TWE-A/N, and A/N would be required to assume all liabilities of the A/N Subsidiary and the A/N Systems. Following such a restructuring, TWE's obligations to provide management services would terminate. As of the date of this annual report, neither TWE nor A/N has delivered notice of the intent to cause a restructuring of TWE-A/N.

Rights of First Offer

TWE's Regular Right of First Offer. Subject to exceptions, A/N and its affiliates are obligated to grant TWE a right of first offer with respect to any sale of assets of the A/N systems.

TWE's Special Right of First Offer. Within a specified time period following the first, seventh, thirteenth and nineteenth anniversaries of the deaths of two specified members of the Newhouse family (those deaths have not yet occurred), A/N has the right to deliver notice to TWE stating that it wishes to transfer some or all of the assets of the A/N systems, thereby granting TWE the right of first offer to purchase the specified assets. Following delivery of this notice, an appraiser will determine the value of the assets proposed to be transferred. Once the value of the assets has been determined, A/N has the right to terminate its offer to sell the specified assets. If A/N does not terminate its offer, TWE will have the right to purchase the specified assets at a price equal to the value of the specified assets determined by the appraiser. If TWE does not

exercise its right to purchase the specified assets, A/N has the right to sell the specified assets to an unrelated third party within 180 days on substantially the same terms as were available to TWE.

DESCRIPTION OF CERTAIN PROVISIONS OF AGREEMENTS RELATED TO TWC INC.

The following description summarizes certain provisions of agreements related to, and constituent documents of, TWC that will affect and govern the ongoing operations of TWC following the TWE Restructuring. Such description does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the provisions of such agreements and constituent documents.

Management and Operation of TWC

Stockholders of TWC. In the TWE Restructuring, AOL Time Warner and its subsidiaries will receive shares of Class A common stock of TWC, which generally has one vote per share, and shares of Class B common stock of TWC, which generally has ten votes per share, which together will represent 89.3% of the voting power of TWC and 82.1% of the equity of TWC. A Comcast Trust will receive shares of Class A common stock of TWC representing the remaining 10.7% of the voting power and 17.9% of the equity of TWC. The Class B common stock will not be convertible into Class A common stock. The Class A common stock and the Class B common stock will vote together as a single class on all matters, except with respect to the election of directors and certain matters described below.

Board of Directors of TWC. Following the TWE Restructuring, the Class A common stock will vote, as a separate class, with respect to the election of the Class A directors of TWC (the "Class A Directors"), and the Class B common stock will vote, as a separate class, with respect to the election of the Class B directors of TWC (the "Class B Directors"). Pursuant to the restated certificate of incorporation of TWC (the "Restated Certificate of Incorporation") to be filed at the closing of the TWE Restructuring, the Class A Directors must represent not less than one-sixth and not more than one-fifth of the directors of TWC, and the Class B Directors must represent not less than four-fifths of the directors of TWC. Because of its share holdings, AOL Time Warner will be able to cause the election of all Class A Directors and Class B Directors, subject to certain restrictions on the identity of these directors discussed below.

Following the TWE Restructuring but prior to any initial public offering of TWC, the Restated Certificate of Incorporation will require that there be at least two independent directors on the board of directors of TWC. In addition, a parent agreement (the "Parent Agreement") among AOL Time Warner, TWC and Comcast will provide that, prior to the initial public offering of TWC, at least 50% of the independent directors be, at the time of their nomination, reasonably satisfactory to the Comcast Trust. To the extent possible, all such independent directors will be Class A Directors. For three years following the initial public offering of TWC, the Restated Certificate of Incorporation will require that at least 50% of the board of directors of TWC consist of independent directors.

Protections of Minority Class A Common Stockholders. Following the TWE Restructuring, the approval of the holders of a majority of the voting power of the then outstanding shares of Class A common stock held by persons other than AOL Time Warner will be necessary in connection with:

- any merger, consolidation or business combination of TWC in which the holders of Class A common stock do not receive per share consideration identical to that received by the holders of Class B common stock (other than with respect to voting power) or which would adversely affect the Class A common stock relative to the Class B common stock;
- any change to the Restated Certificate of Incorporation that would have a material adverse effect on the rights of the holders of the Class A common stock in a manner different from the effect on the holders of the Class B common stock;
- any change to the provisions of the Restated Certificate of Incorporation that would affect the right of the Class A common stock to vote as a class in connection with any merger as discussed above;

- any change to the Restated Certificate of Incorporation that would alter the number of independent directors required on the TWC board of directors; and
- through and until the fifth anniversary of the completion of any initial public offering of TWC, any change to provisions of TWC's by-laws concerning restrictions on transactions between TWC and AOL Time Warner and its affiliates.

Matters Affecting the Relationship between AOL Time Warner and TWC

Indebtedness Approval Right. For so long as the indebtedness of TWC is attributable to AOL Time Warner, in AOL Time Warner's reasonable judgment, TWC, its subsidiaries and entities that it manages will not, without the consent of AOL Time Warner, create, incur or guarantee any indebtedness, including preferred equity, or rental obligations if its ratio of indebtedness plus six times its annual rental expense to EBITDA plus rental expense, or "EBITDAR," then exceeds or would exceed 3:1.

Other AOL Time Warner Rights. Under the Parent Agreement, as long as AOL Time Warner has the right to elect more than a majority of the directors of TWC, TWC must obtain AOL Time Warner's consent before it enters into any agreement that binds or purports to bind AOL Time Warner or its affiliates or that would subject TWC to significant penalties or restrictions as a result of any action or omission of AOL Time Warner; or adopts a stockholder rights plan, becomes subject to Section 203 of the Delaware General Corporation Law, adopts a "fair price" provision or takes any similar action.

AOL Time Warner Standstill. Under the Parent Agreement, AOL Time Warner has agreed that for three years following the completion of any initial public offering of TWC, AOL Time Warner will not make or announce a tender offer or exchange offer for the Class A common stock of TWC without the approval of a majority of the independent directors of TWC; and for ten years following any initial public offering of TWC, AOL Time Warner will not enter into any business combination with TWC, including a short-form merger, without the approval of a majority of the independent directors of TWC.

Transactions between AOL Time Warner and TWC. The by-laws of TWC will provide that AOL Time Warner may only enter into transactions with TWC and its subsidiaries, including TWE, that are on terms that, at the time of entering into such transaction, are substantially as favorable to TWC or its subsidiaries as they would be able to receive in a comparable arm's-length transaction with a third party. Any such transaction involving reasonably anticipated payments or other consideration of $50 million or greater will also require the prior approval of a majority of the independent directors of TWC.

TWC Registration Rights Agreements

TWC Registration Rights Agreement with Comcast Trust. At the closing of the TWE Restructuring, a Comcast Trust will enter into a registration rights agreement with TWC relating to its shares of Class A common stock, as well as any common stock of TWC that it or another Comcast Trust may receive in connection with any sale of a partnership interest in TWE under the Partnership Interest Sale Agreement (see "Description of Certain Provisions of the TWE Partnership Agreement — Registration Rights and Other Exit Rights," above).

Subject to several exceptions, including TWC's right to defer a demand registration under some circumstances, the Comcast Trust may require that TWC register for public resale under the Securities Act of 1933 all shares of Class A common stock it requests be registered. The Comcast Trust may demand five registrations so long as the securities being registered in each registration statement are reasonably expected to produce aggregate proceeds of $250 million or more. TWC will not be obligated to effect more than one demand registration on behalf of the Comcast Trust in any 270-day period, nor will TWC be obligated to effect a demand registration on behalf of the Comcast Trust if it has received proceeds in excess of $250 million (or 10% of TWC's market capitalization) from private placements of and hedging transactions relating to TWC's common stock in the preceding 270-day period. Any registered hedging transaction or other monetization with respect to TWC common stock will be deemed to constitute a demand registration. In addition, the Comcast Trust will have "piggyback" registration rights subject to customary restrictions on any

registration for TWC's account or the account of another stockholder, and TWC and AOL Time Warner will be permitted to piggyback on the Comcast Trust's demand registrations. Under the registration rights agreement, the Comcast Trust may not engage in any private placement or hedging transaction until the earlier of the first anniversary of the closing of the TWE Restructuring and the date upon which TWC shall have sold at least $2.1 billion worth of common stock.

If any registration requested by the Comcast Trust or AOL Time Warner is in the form of a firm underwritten offering, and if the managing underwriter of the offering determines that the number of securities to be offered would jeopardize the success of the offering, the number of shares included in the offering shall be determined as follows:

- first, securities to be offered for TWC's account must be included until TWC has sold $2.1 billion worth of securities, whether through public offerings, private placements or hedging transactions;

- second, securities to be offered for the account of the Comcast Trust must be included until it has sold $3.0 billion worth of securities; and

- third, TWC and the Comcast Trust will have equal priority, and AOL Time Warner will have last priority until the earlier of (x) the fifth anniversary of the closing of the TWE Restructuring and (y) the date the Comcast Trust holds less than $250 million of TWC common stock. After that date, TWC, the Comcast Trust and AOL Time Warner will have equal priority.

Registration Rights Agreement between TWC and AOL Time Warner. At the closing of the TWE Restructuring, AOL Time Warner and TWC will enter into a registration rights agreement relating to AOL Time Warner's shares of TWC common stock. Subject to several exceptions, including TWC's right to defer a demand registration under some circumstances, AOL Time Warner may, under that agreement, require that TWC register for public resale under the Securities Act of 1933 all shares of common stock that AOL Time Warner requests be registered. AOL Time Warner may demand an unlimited number of registrations. In addition, AOL Time Warner will be granted "piggyback" registration rights subject to customary restrictions, and TWC will be permitted to piggyback on AOL Time Warner's registrations. Any registration statement filed under the agreement is subject to the cut-back priority discussed above. AOL Time Warner will not, until the fifth anniversary of the closing of the TWE Restructuring, dispose of its shares of TWC common stock other than in registered offerings.

In connection with the registrations described above under both registration rights agreements, TWC will indemnify the selling stockholders and bear all fees, costs and expenses, except underwriting discounts and selling commissions.

CURRENCY RATES AND REGULATIONS

TWE's foreign operations are subject to the risk of fluctuation in currency exchange rates and to exchange controls. TWE cannot predict the extent to which such controls and fluctuations in currency exchange rates may affect its operations in the future or its ability to remit dollars from abroad. See Note 1, "Organization and Summary of Significant Accounting Policies — Foreign Currency Translation" and Note 12, "Derivative Financial Instruments — Foreign Currency Risk Management" to TWE's consolidated financial statements set forth at pages F-41 and F-65 through F-66, respectively, herein. For a discussion of revenues of international operations, see Note 13, "Segment Information" to TWE's consolidated financial statements set forth on page F-70 herein.

EMPLOYEES

At December 31, 2002, TWE employed a total of approximately 31,200 persons.

BUSINESSES OF THE AOL TIME WARNER GENERAL PARTNERS

Prior to the completion of the TWE Restructuring, WCI and ATC are the General Partners of TWE. WCI conducts substantially all of AOL Time Warner's vertically integrated worldwide recorded music business and worldwide music publishing business under the umbrella name Warner Music Group. ATC does not conduct operations independent of its ownership in TWE and certain other investments.

MUSIC

In the United States and around the world, WCI, through its wholly owned Warner Music Group division ("WMG"), is in the business of discovering and signing musical artists and manufacturing, packaging, distributing and marketing their recorded music, and also in the DVD manufacturing and printing businesses.

Recorded Music

In the United States, WMG's recorded music business is principally conducted through WMG's Warner Bros. Records Inc., Atlantic Recording Corporation, Elektra Entertainment Group Inc. and Word Entertainment and their affiliated labels, as well as through the WEA Inc. companies. WMG's recorded music activities are also conducted through its Warner Music International division in over 70 countries outside the United States through various subsidiaries, affiliates and non-affiliated licensees.

The WEA Inc. companies include WEA Manufacturing Inc., which manufactures compact discs (CDs), CD-ROMs and DVDs principally for WMG's record labels and Warner Home Video, but also for other outside companies; Ivy Hill Corporation, which produces printed material and packaging for WMG's recorded music products as well as for a wide variety of other consumer products; and Warner-Elektra-Atlantic Corporation ("WEA Corp."), which markets and distributes WMG's and third-party recorded music products to retailers and wholesale distributors. WMG also owns a majority interest in Alternative Distribution Alliance ("ADA"), an independent distribution company specializing in alternative rock, metal, hip hop and dance music with a focus on new or developing artists.

Domestic

WMG's major record labels in the United States—Warner Bros., Atlantic, Elektra and Word—each with a distinct identity, discover, sign and develop recording artists. The labels scout and sign talent in many different musical genres, including pop, rock, jazz, country, R&B, hip hop, rap, reggae, Latin, alternative, folk, blues, gospel and Christian music. The January 2002 acquisition of Word Entertainment, a major Christian music company, has significantly expanded the division's presence in that genre. In July 2002, Word Entertainment became 20% owned by an affiliate of Curb Records, a prominent Nashville-based independent record label, as part of a transaction in which Curb entered into a long-term multi-territory distribution arrangement with various WMG affiliates. Among the artists that resulted in significant United States sales for WMG during 2002 were: Josh Groban, Enya, Kid Rock, Faith Hill, Red Hot Chili Peppers, Linkin Park, Missy Elliott, P.O.D., Michelle Branch and Nappy Roots.

WMG is a vertically integrated music company. After an artist has entered into a contract with a WMG label, a master recording of the artist's music is produced and provided to WMG's manufacturing operation, WEA Manufacturing, which replicates the music primarily on CDs. WEA Manufacturing also manufactures a significant number of DVDs worldwide. Ivy Hill prints material that is included with CDs, DVDs and audio cassettes and creates packaging for them. WEA Corp. and ADA, WMG's United States distribution arms, market and sell product and deliver it, either directly or through sub-distributors and wholesalers, to thousands of record stores, mass merchants and other retailers throughout the country. Product is also increasingly being sold directly to consumers through Internet retailers such as Amazon.com. Sales by WMG labels, as well as by the music industry generally, have been adversely affected by piracy and parallel imports and also by Internet sites and technologies that allow consumers to download quality sound reproductions from the Internet without authorization from the rights owner.

WMG's Warner Strategic Marketing division (which includes Warner Special Products, Warner Television Marketing, Warner Music Group Soundtracks and Rhino Entertainment Company) specializes in marketing WMG's catalog through compilations and reissues of previously released music and video titles; licensing tracks to third parties for various uses and through coordinating film and television soundtrack opportunities between WMG record labels and the film and television studios of both Warner Bros. and third parties.

WMG also has entered into joint venture arrangements pursuant to which WMG companies manufacture, distribute and market (in most cases, domestically and internationally) recordings owned by joint ventures, such as Maverick Records and Lava Records. Since 1991, WMG and Sony Music Entertainment Inc. have operated The Columbia House Company, a direct marketer of CDs, DVDs and audio and videocassettes in North America, through a 50/50 joint venture. In June 2002, WMG and Sony Music each sold 85% of their ownership interests in Columbia House to an affiliate of The Blackstone Group as part of a leveraged buyout, thereby reducing WMG's interest to 7.5%.

WMG has continued to actively pursue new media opportunities and to license new business models in the digital arena. In 2001, Bertelsmann and EMI joined WMG and RealNetworks as shareholders in MusicNet, an online subscription music distribution platform that functions as a wholesaler and is implemented by online services that interface with individual consumers. As of November 2002, MusicNet had obtained licenses from all five major music companies, enabling it to offer a broad musical repertoire. In addition to the subscription service licenses granted by WMG in 2001 to Echo Networks, MusicNet, OD2 and Listen.com, in 2002 WMG entered into subscription service licenses with FullAudio, Streamwaves.com and press*play*.

In late 2002, WMG and AT&T Wireless announced that AT&T Wireless would be selling ring tones featuring the music of WMG artists to certain AT&T Wireless subscribers that use cellular handsets supporting such functionality. As part of such arrangement, WMG is hosting a wireless website that allows such subscribers to access certain WMG artists' promotional content. WMG entered into a similar arrangement with Sprint PCS in early 2003 and expects to enter into additional arrangements with a goal of developing new wireless promotional and commercial opportunities for WMG and its artists. WMG has also been a driving force in establishing the DVD Audio format, launched in fall 2000, which improves on the CD by providing higher fidelity and six-channel surround sound. As of the end of 2002, WMG has released more than 80 titles in this format.

WMG's Giant Merchandising is a leading supplier of screen printed and embellished apparel focusing on music entertainment merchandising, retail licenses and private label marketing and distribution. Among Giant's major customers in 2002 were Paul McCartney, Cher, Aerosmith, Harley Davidson, Hard Rock Cafe, Nike and Reebok.

International

The Warner Music International ("WMI") division of WMG operates through various subsidiaries and affiliates and their non-affiliated licensees in over 70 countries around the world. WMI engages in the same activities as WMG's domestic labels, discovering and signing artists and manufacturing, packaging, distributing and marketing their recorded music. The artists signed to WMI and its affiliates number more than a thousand. Significant album sales for WMI in 2002 were generated by the following artists and soundtracks: Alanis Morissette, Linkin Park, David Gray, Phil Collins, Laura Pausini, Mana, Rip Slyme, Red Hot Chili Peppers and *Lord of the Rings*.

In most cases, WMI also markets and distributes the records of those artists for whom WMG's domestic record labels have international rights. In certain countries, WMI licenses to unaffiliated third-party record labels the right to distribute its records. WMI operates a plant in Germany that manufactures CDs and DVDs for its affiliated companies, as well as for outside companies and, as part of a joint venture, operates a plant in Australia that manufactures CDs.

Music Publishing

WMG's music publishing division, Warner/Chappell, owns or controls the rights to more than one million musical compositions, including numerous pop music hits, American standards, folk songs and motion picture and theatrical compositions. Its catalog includes works from a diverse range of artists and composers including Madonna, Staind, Nickelback, India.Arie, Barry Gibb, Dido, Moby, George and Ira Gershwin and Cole Porter. Warner/Chappell also administers the music of several television and motion picture companies, including Lucasfilm, Ltd. and Hallmark Entertainment.

Warner/Chappell also owns Warner Bros. Publications, one of the world's largest publishers of printed music. Warner Bros. Publications markets publications throughout the world containing works of such artists as Shania Twain, The Grateful Dead and Led Zeppelin and containing works from the Zomba and Universal music publishing catalogs.

The principal sources of revenues to Warner/Chappell are royalties for the use of its compositions on CDs, DVDs, ring tones, music videos, the Internet and in television commercials; license fees paid for the use of its musical compositions on radio, television, in motion pictures and in other public performances; and sales of published sheet music and song books.

Competition

The revenues of a company in the recording industry depend upon public acceptance of a company's recording artists and their music. Although WMG is one of the largest recorded music companies in the world, its competitive position is dependent on its continuing ability to attract and develop talent that can achieve a high degree of public acceptance. The competition among record companies for such talent is intense, as is the competition among companies to sell the recordings created by these artists. The recorded music business continues to be adversely affected by the bankruptcies of record wholesalers and retailers, counterfeiting of CDs, piracy and parallel imports and also by Internet sites and technologies that allow consumers to download quality sound reproductions from the Internet without authorization from the rights owner. In response, the recorded music industry has engaged in efforts to develop secure technologies for digital music delivery, to battle piracy through litigation and legislation and to establish legitimate new media business models.

Competition in the music publishing business is also intense. Although WMG's music publishing business is one of the largest on a worldwide basis, it competes with every other music publishing company in acquiring musical compositions and in having them recorded and performed. In addition, the vast majority of WMG's music publishing revenues are subject to rate regulation either by government entities or by collecting societies throughout the world. WMG also competes for consumer attention with other non-musical media such as home video and video games.

OTHER

Time Warner Telecom

Time Warner Telecom Inc. ("Time Warner Telecom") is a fiber facilities-based integrated communications provider that sells last-mile bandwidth and telecommunications services on its own fiber optic network to medium and large businesses in selected metropolitan areas across the United States. Time Warner Telecom was formed in 1998 through a restructuring of the business telephony operations of Time Warner Cable. The AOLTW General Partners' aggregate equity interest in Time Warner Telecom as of December 31, 2002 was 34%.

DC Comics and Mad Magazine

DC Comics, which has been owned 50-50 by TWE and WCI, publishes more than 50 regularly issued comics magazines featuring such popular characters as *Superman, Batman, Wonder Woman* and *The Sandman*. DC Comics also derives revenues from motion pictures, television, product licensing and books.

Following completion of the TWE Restructuring, DC Comics will be 100% owned by WCI and a subsidiary of WCI.

WCI owns 100% of E.C. Publications, Inc., the publisher of MAD, a humor and satirical magazine which is regularly published 12 times a year and also in periodic special editions.

Turner Broadcasting System, Inc.

In October 1996, Time Warner consummated the acquisition of TBS by acquiring the remaining approximately 80% interest in TBS not already owned by Time Warner. The AOLTW General Partners collectively own a 10.6% economic interest in TBS. Through its subsidiaries, TBS owns and operates domestic and international entertainment networks, including TBS Superstation, Turner Network Television (TNT), Cartoon Network and Turner Classic Movies; and news networks, including CNN, Headline News, CNN International (CNNI) and CNN en Español. TBS also has interests in sports franchises and motion picture operations.

Warner Japan

WCI currently owns, directly and indirectly, an aggregate 99.95% interest in Warner Japan, which conducts a number of businesses in Japan, including home video distribution, theatrical film and television distribution and merchandising businesses, as well as recorded music production, promotion and distribution. Pursuant to distribution and merchandising agreements entered into between TWE and Warner Japan, Warner Japan receives distribution fees generally comparable to those currently received by TWE for performing distribution services for unaffiliated third parties.

Item 2. ***Properties***

Networks — HBO, Filmed Entertainment and Cable

The following table sets forth certain information as of December 31, 2002 with respect to principal properties (over 250,000 square feet in area) owned or leased by TWE's Networks — HBO, Filmed Entertainment and Cable businesses, all of which TWE considers adequate for its present needs, and all of which were substantially used by TWE.

Location	Principal Use	Approximate Square Feet Floor Space/Acres	Type of Ownership Expiration Date of Lease
New York, NY 1100 and 1114 Ave. of the Americas	Business offices (HBO)	350,000 sq. ft. and 275,600 sq. ft.	Leased by TWE. Lease expires in 2018.
Burbank, CA The Warner Bros. Studio	Sound stages, administrative, technical and dressing room structures, screening theaters, machinery and equipment facilities, back lot and parking lot and other Burbank properties (Filmed Entertainment)	3,303,000 sq. ft. of improved space on 158 acres(a)	Owned by TWE.
Valencia, CA Undeveloped land	Location filming (Filmed Entertainment)	232 acres	Owned by TWE.

(a) Ten acres consist of various parcels adjoining The Warner Bros. Studio, with mixed commercial, office and residential uses.

AOL Time Warner General Partners

The following table sets forth certain information as of December 31, 2002 with respect to the principal properties of WCI and its subsidiaries (over 250,000 square feet in area), all of which WCI considers adequate for its present needs, and all of which were substantially used by WCI. ATC, the other AOL Time Warner General Partner, does not own or lease any properties material to its business.

Location	Principal Use	Approximate Square Feet Floor Space	Type of Ownership Expiration Date of Lease
Olyphant, PA East Lackawanna Ave	Manufacturing, warehouses, distribution and office space (Music)	1,012,850	Owned and occupied by WCI.
Aurora, IL 948 Meridian Lake	Offices/warehouse (Music)	602,000	Owned and occupied by WCI.
Alsdorf, Germany Max-Planck Strasse 1-9	Manufacturing, distribution and office space (Music)	269,000	Owned and occupied by WCI.
Terre Haute, Indiana 4025 3rd Pkwy	Manufacturing and office space (Music)	269,000	Leased by WCI. Lease expires in 2011.

Item 3. ***Legal Proceedings***

TWE or the AOLTW General Partners are parties to various litigation matters, including:

On June 24, 1997, plaintiffs in *Six Flags Over Georgia LLC et al. v. Time Warner Entertainment Company, L.P. et al.*, filed an amended complaint in the Superior Court of Gwinnett County, Georgia, claiming that, inter alia, defendants, which include TWE, violated their fiduciary duties in operating the Six Flags Over Georgia theme park. On December 18, 1998, following a trial, a jury returned a verdict in favor of plaintiffs. The total awarded to plaintiffs was approximately $454 million in compensatory and punitive damages. The case was appealed to the Georgia Court of Appeals, which affirmed the trial court's judgment, and denied reconsideration. The Supreme Court of Georgia denied certiorari on January 18, 2001. On February 28, 2001, the compensatory damages portion of the award plus accrued interest was paid to plaintiffs. On March 1, 2001, the United States Supreme Court granted a stay as to payment of the punitive damages part of the jury's original award, pending the resolution of a petition for certiorari to be filed by TWE, which was filed on June 15, 2001. On October 1, 2001, the United States Supreme Court granted certiorari, vacated the opinion of the Georgia Court of Appeals and remanded the case for further consideration as to punitive damages. On March 29, 2002, the Georgia Court of Appeals affirmed and reinstated its earlier decision regarding the punitive damage award. On April 18, 2002, TWE filed a petition for certiorari to the Georgia Supreme Court seeking review of the decision of the Georgia Court of Appeals, which was denied on September 16, 2002. The Georgia Supreme Court subsequently denied TWE's motion for reconsideration of its September 16th ruling. Plaintiffs have agreed not to pursue payment of the punitive damages award and accrued interest until the resolution of TWE's petition for writ of certiorari to the United States Supreme Court, which TWE filed on December 23, 2002. The petition is pending.

On April 8, 2002, three former employees of certain subsidiaries of WMG filed *Henry Spann et al. v. AOL Time Warner Inc. et al.*, a purported class action, in the U. S. District Court for the Central District of California. Plaintiffs have named as defendants AOL Time Warner, TWE., WEA Corp., WEA Manufacturing Inc., Warner Bros. Records, Atlantic Recording Corporation, various pension plans sponsored by the companies and the administrative committees of those plans. Plaintiffs allege that defendants miscalculated the proper amount of pension benefits owed to them and other class members as required under the plans in violation of ERISA. The lawsuit has been transferred to the U. S. District Court for the Southern District of New York. The AOLTW General Partners intend to defend against this lawsuit vigorously. The AOLTW General Partners are unable to predict the outcome of this suit or reasonably estimate a range of possible loss.

The costs and other effects of pending or future litigation, governmental investigations, legal and administrative cases and proceedings (whether civil or criminal), settlements, judgements and investigations,

claims and changes in those matters (including those matters described above), and developments or assertions by or against TWE or the AOLTW General Partners relating to intellectual property rights and intellectual property licenses, could have a material adverse effect such company's business, financial condition and operating results.

Item 4. ***Submission of Matters to a Vote of Security Holders.***

Not applicable.

PART II

Item 5. ***Market For Registrant's Common Equity and Related Stockholder Matters.***

Not applicable.

Item 6. ***Selected Financial Data.***

The selected financial information of TWE and the AOLTW General Partners for the five years ended December 31, 2003 is set forth at pages F-76 and F-142 herein and is incorporated herein by reference.

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

The information set forth under the caption "Management's Discussion and Analysis" at pages F-2 through F-29 and at pages F-79 through F-100 herein is incorporated herein by reference.

Item 7A. ***Quantitative and Qualitative Disclosures About Market Risk.***

The information set forth under the caption "Market Risk Management" at pages F-20 through F-21 and page F-89 through F-90 herein is incorporated herein by reference.

Item 8. ***Financial Statements and Supplementary Data.***

The consolidated financial statements and supplementary data at pages F-30 through F-74 of TWE and the report of independent auditors thereon set forth at page F-75 herein, and the consolidated financial statements set forth at pages F-101 through F-140 of the AOLTW General Partners and the report of independent auditors thereon set forth at page F-141 herein, are incorporated herein by reference.

Quarterly Financial Information set forth at page F-77 herein is incorporated herein by reference.

Item 9. ***Changes In and Disagreements with Accountants on Accounting and Financial Disclosure.***

Not applicable.

PART III

Item 10. ***Directors and Executive Officers of the Registrant***

Representatives and Directors

Set forth below is the name and age of each member of the Board of Representatives of TWE and each person who is a director of one or both of the AOLTW General Partners, such person's present principal occupation or employment, the name of the corporation or other organization in which such occupation or employment is conducted and the name and principal business of any corporation or other organization in which such person held a material position or office or engaged in a material occupation or employment during the last five years and such position, office, occupation or employment. Mr. Parsons became a member of the Board of Representatives of TWE on February 1, 1995, Messrs. Case and Novack became members of the Board of Representatives of TWE as of January 12, 2001 and Messrs. Bewkes and Logan became members of

the Board of Representatives of TWE on July 18, 2002. The selection of TWE's Board of Representatives prior to the completion of the TWE Restructuring is governed by the TWE Partnership Agreement. Comcast, through the Comcast Trusts, has elected not to appoint any representatives to the Board of Representatives of TWE and will not do so prior to the completion of the TWE Restructuring. After the TWE Restructuring, TWC Inc., as the general partner of TWE, will manage the business and affairs of TWE. See "Description of Certain Provisions of the TWE Partnership Agreement — Management and Operations of TWE." Mr. Parsons became a director of each AOLTW General Partner on February 1, 1995. Messrs. Bewkes and Logan became directors of each AOLTW General Partner on July 31, 2002.

For a general discussion of the duties of the executive officers and representatives of TWE, see "Description of Certain Provisions of the TWE Partnership Agreement — Management and Operations of TWE."

Name	Director and/or Representative of	Age	Principal Occupations or Positions During the Past Five Years
Stephen M. Case	TWE	44	Chairman of the Board of TWE and AOL Time Warner since the consummation of the Merger. Mr. Case has announced that he will step down as Chairman of the Board of TWE and AOL Time Warner in May 2003. A co-founder of America Online, Mr. Case had been Chairman of the Board of America Online from October 1995 and CEO of America Online from April 1993, having served in other executive positions at America Online since 1985. Mr. Case is also a director of AOL Time Warner.
Richard D. Parsons.....	TWE, WCI and ATC	54	Chief Executive Officer of TWE and AOL Time Warner since May 2002 and will also become Chairman of the Board of TWE and AOL Time Warner in May 2003; prior to May 2002, he was Co-Chief Operating Officer of both companies from the consummation of the Merger. Prior to the Merger, Mr. Parsons was President of TWE and Time Warner from February 1995. He served as a director of ATC, then an 82%-owned subsidiary of Time Warner, from 1989 until 1991 and is currently also a director of AOL Time Warner, Citigroup Inc. and Estee Lauder Companies, Inc.
Kenneth J. Novack.....	TWE	61	Vice Chairman of TWE and AOL Time Warner since the consummation of the Merger; prior to that, he served as Vice Chairman of America Online from May 1998. Mr. Novack served as Of Counsel to the Boston-based law firm of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, PC after his retirement as a member of that firm in August 1998 through March 2001. Mr. Novack joined Mintz Levin in 1966 and served on its executive committee from 1970 until his retirement. Mr. Novack is also a director of AOL Time Warner.

Name	Director and/or Representative of	Age	Principal Occupations or Positions During the Past Five Years
Jeffrey L. Bewkes	TWE, WCI and ATC	50	Chairman, Entertainment & Networks Group of TWE and AOL Time Warner since July 2002; prior to that, Mr. Bewkes served as Chief Executive Officer of the Home Box Office division of TWE from May 1995 and President and Chief Operating Officer for the preceding five years.
Don Logan............	TWE, WCI and ATC	59	Chairman, Media & Communications Group of TWE and AOL Time Warner since July 2002; prior to that, Mr. Logan served as Chairman and Chief Executive Officer of Time Inc., AOL Time Warner's publishing subsidiary, from August 1994, and as its President and Chief Operating Officer from June 1992. Prior to that, he held various executive positions with Southern Progress Corporation, which was acquired by Time Inc. in 1985.

Executive Officers

Set forth below is the name and age of the executive officers of TWE and each of the AOLTW General Partners, such person's present principal occupation or employment, the name of the corporation or other organization in which such occupation or employment is conducted and the name and principal business of any corporation or other organization in which such person held a material position or office or engaged in a material occupation or employment during the last five years and such position, office, occupation or employment. Mr. Parsons became an executive officer of the AOLTW General Partners on February 1, 1995. The remaining executive officers of TWE became executive officers of ATC as of January 12, 2001 and of WCI as of February 2, 2001 or, if later, on the date they became executive officers of TWE.

Name	Age	Principal Occupations or Positions During the Past Five Years
Stephen M. Case	44	See "— Representatives and Directors."
Richard D. Parsons.....	54	See "— Representatives and Directors."
Kenneth J. Novack.....	61	See "— Representatives and Directors."
Jeffrey L. Bewkes	50	See "— Representatives and Directors."
Don Logan............	59	See "— Representatives and Directors."
Paul T. Cappuccio	41	Executive Vice President, General Counsel and Secretary of TWE and AOL Time Warner since the consummation of the Merger; prior to that, he served as Senior Vice President and General Counsel of America Online from August 1999. Before joining America Online, from 1993 to 1999, Mr. Cappuccio was a partner at the Washington, D.C. office of the law firm of Kirkland & Ellis. Mr. Cappuccio was also an Associate Deputy Attorney General at the U.S. Department of Justice from 1991 to 1993.
Adolf DiBiasio.........	61	Executive Vice President of Strategy and Investments of TWE and AOL Time Warner since May 2001; prior to that, Mr. DiBiasio was a Senior Director at McKinsey & Company, management consultants, for more than 30 years.

Name	Age	Principal Occupations or Positions During the Past Five Years
Patricia Fili-Krushel	49	Executive Vice President of Administration of TWE and AOL Time Warner since July 2001; prior to that, she was Chief Executive Officer of WebMD Health division of WebMD Corporation, an Internet portal providing health information and service for the consumer, from April 2000 to July 2001 and President of ABC Television Network from July 1998 to April 2000. Prior to that, she was President, ABC Daytime from 1993 to 1998.
Robert M. Kimmitt	55	Executive Vice President of Global & Strategic Policy of TWE and AOL Time Warner since July 2001; prior to that, he was President and Vice Chairman of Commerce One, Inc., an electronic commerce company, from March 2000 to June 2001, having served as Vice Chairman and Chief Operating Officer from February 2000. Previously, Mr. Kimmitt was a partner in the Washington, D.C.-based law firm of Wilmer, Cutler & Pickering from 1997 to 2000. He had previously been managing director at Lehman Brothers, an international financial services firm, from 1993 to 1997. Mr. Kimmitt also served as the U.S. Ambassador to Germany from 1991 to 1993.
Michael Lynton........	43	Executive Vice President of TWE and Executive Vice President of AOL Time Warner and President, AOL Time Warner International, since May 2002; prior to that, Mr. Lynton served as President, AOL International, at America Online. Prior to joining America Online in 1999, Mr. Lynton was Chairman and Chief Executive Officer of the Penguin Group of Pearson plc, an international media company, beginning in September 1996. Prior to his tenure at Pearson, Mr. Lynton held various executive positions at the Walt Disney Company from 1987.
Wayne H. Pace........	56	Executive Vice President and Chief Financial Officer of TWE and AOL Time Warner since November 2001; prior to that, he was Vice Chairman, Chief Financial and Administrative Officer of TBS from March 2001, having held other executive positions, including Chief Financial Officer, at TBS since July 1993. Prior to joining TBS, Mr. Pace was an audit partner with Price Waterhouse, now PricewaterhouseCoopers, an international accounting firm.

Compliance with Section 16(a) of the Exchange Act.

Not Applicable.

Item 11. ***Executive Compensation***

In 2002, the executive officers of TWE and the AOLTW General Partners were compensated by AOL Time Warner for services provided in most cases to AOL Time Warner pursuant to employment agreements with AOL Time Warner and received no additional compensation from TWE or any of the AOLTW General Partners. AOL Time Warner provided the services of such executive officers to TWE and was reimbursed for such services pursuant to arrangements set forth in the TWE Partnership Agreement. See Item 13 "Certain Relationships and Related Transactions — Corporate Services." Members of the Board of Representatives of TWE and directors of the AOLTW General Partners are not additionally compensated for such activities.

Executive Compensation Summary Table

The following table presents information concerning total compensation paid to the two individuals who served as Chief Executive Officer during 2002, each of the four most highly compensated executive officers of AOL Time Warner and TWE who served in such capacities on December 31, 2002 and Mr. Pittman, who served as an executive officer during 2002 (collectively, the "named executive officers"). Prior to the consummation of the Merger on January 11, 2001 (the "Merger Date"), certain of these executive officers functioned as executive officers of, and were compensated by, America Online or Time Warner, as the case may be. Prior to the Merger, America Online's fiscal year ended on June 30. In connection with the Merger, America Online changed its fiscal year to a calendar year. As a result, the compensation shown for Messrs. Case, Novack and Pittman prior to 2001 is that paid with respect to America Online's prior fiscal year and the last six months of 2000 (the "Transition Period"). All information related to common stock has been adjusted to reflect the exchange ratios of common stock of Time Warner and America Online for common stock of AOL Time Warner ("AOL Time Warner Common Stock") in the Merger and AOL Time Warner's assumption of the relevant America Online and Time Warner stock-based benefit plans in connection with the Merger.

SUMMARY COMPENSATION TABLE

	Annual Compensation				Long-Term Compensation(10)	
Name and Principal Position	Year	Salary	Bonus(8)	Other Annual Compensation(9)	Securities Underlying Options Awarded	All Other Compensation(11)
Stephen M. Case(1)	2002	$ 1,000,000	$ 0	$ 277,555	0	$ 2,250
Chairman of the	2001	1,000,000	0	—	4,000,000	2,250
Board	T.P.*	383,333	0	—	1,750,000	0
	2000	725,000	1,125,000	—	3,000,000	5,165
Richard D. Parsons(2)	2002	$ 1,000,000	$ 0	$ 178,980	300,000	$ 85,183
Chief Executive	2001	1,000,000	0	166,597	3,500,000	77,913
Officer	2000	750,000	6,000,000	146,535	525,000	476,935
Kenneth J. Novack(3)	2002	$ 1,000,000	$ 0	$ 200,257	0	$ 2,250
Vice Chairman	2001	1,000,000	0	165,790	2,000,000	250
	T.P.*	258,333	275,000	—	1,000,000	0
	2000	433,333	506,000	—	1,000,000	6,620
Jeffrey L. Bewkes(4) ..... Chairman, Entertainment & Networks Group	2002	$ 1,000,000	$ 5,000,000	$ 86,560	650,000	$ 61,297
Don Logan(5) .... Chairman, Media & Communications Group	2002	$ 1,000,000	$ 5,000,000	$ 475,925	650,000	$ 36,139
Gerald M. Levin(6)	2002	$ 1,000,000	$ 0	$ 285,058	0	$ 35,002
Former Chief	2001	1,000,000	0	237,602	4,000,000	47,031
Executive Officer	2000	1,000,000	10,000,000	226,620	750,000	571,277
Robert W. Pittman(7)	2002	$ 769,230	$ 0	$ 288,837	210,000	$ 2,250
Former Chief	2001	1,000,000	0	399,611	3,500,000	504,736
Operating Officer	T.P.*	358,333	550,000	56,520	1,500,000	0
	2000	683,334	1,050,000	60,965	2,500,000	810

* Transition Period — July 1, 2000 through December 31, 2000

(1) Mr. Case became Chairman of the Board of AOL Time Warner on the Merger Date. Prior to that, he served as Chairman of the Board and Chief Executive Officer of America Online.

(2) Mr. Parsons became Chief Executive Officer of AOL Time Warner on May 16, 2002, having served as Co-Chief Operating Officer of AOL Time Warner from the Merger Date. Prior to that, he served as President of Time Warner.

(3) Mr. Novack became Vice Chairman of AOL Time Warner on the Merger Date. Prior to that, he served as Vice Chairman of America Online.

(4) Mr. Bewkes became Chairman, Entertainment & Networks Group of AOL Time Warner on July 18, 2002. Prior to that, Mr. Bewkes was Chief Executive Officer of AOL Time Warner's Home Box Office division (not an executive officer of AOL Time Warner). The compensation shown in the table includes compensation received from Home Box Office.

(5) Mr. Logan became Chairman, Media & Communications Group of AOL Time Warner on July 18, 2002. Prior to that, Mr. Logan was Chairman and Chief Executive Officer of AOL Time Warner's Time Inc. subsidiary (not an executive officer of AOL Time Warner). The compensation shown in the table includes compensation received from Time Inc.

(6) Mr. Levin served as Chief Executive Officer of AOL Time Warner from February 2000 until his retirement from the position of Chief Executive Officer in May 2002. He continues to serve as an employee in an advisory capacity. He served as Chairman of the Board and Chief Executive Officer of Time Warner from January 1993 to the Merger Date.

(7) Mr. Pittman served as Co-Chief Operating Officer of AOL Time Warner from the Merger Date and served as Chief Operating Officer of AOL Time Warner from May 16, 2002 until his resignation in July 2002. Prior to that, he served as President and Chief Operating Officer of America Online.

(8) One quarter of the stock option award of each named executive officer in 2001, other than Messrs. Bewkes and Logan, was made in lieu of a cash bonus for 2002.

(9) In accordance with SEC rules, amounts totaling less than $50,000 have been omitted. The amounts of personal benefits shown in this column for 2002 that represent more than 25% of the applicable executive's total Other Annual Compensation include financial services of $100,000 to each of Messrs. Parsons, Novack, Levin and Pittman, $99,213 to Mr. Case and $39,186 to Mr. Bewkes; transportation-related benefits of $178,342 to Mr. Case, $74,768 to Mr. Parsons, $47,374 to Mr. Bewkes, $371,029 to Mr. Logan and $172,656 to Mr. Levin; $50,880 to Mr. Novack for insurance coverage (see Note 11(b)); and $167,192 to Mr. Pittman as reimbursement for the payment of taxes related to life insurance coverage provided in 2001. For security reasons, certain executive officers are subject to mandated transportation procedures.

(10) None of the stock options reflected was awarded with tandem stock appreciation rights. None of such executive officers was awarded restricted stock during the relevant period and, as of December 31, 2002, no named executive officer held any such shares.

(11) The amounts shown in this column for 2002 include the following:

(a) Pursuant to the AOL Time Warner Savings Plan (the "Savings Plan"), a defined contribution plan available generally to employees of AOL Time Warner, for the 2002 plan year, each of the named executive officers deferred a portion of his annual compensation and AOL Time Warner contributed $2,000 for the first $3,000 so deferred by the executive ("Matching Contribution"). These Matching Contributions were invested under the Savings Plan in an AOL Time Warner Common Stock fund.

(b) AOL Time Warner maintains a program of life and disability insurance generally available to all salaried employees on the same basis. This group term life insurance coverage was reduced to $50,000 for each of Messrs. Parsons, Novack, Logan and Levin, who were given a cash payment equal to the cost of replacing such reduced coverage under a voluntary group program available to employees generally. Such payments are included in the "Other Annual Compensation" column. In addition, during 2002, AOL Time Warner maintained for certain members of senior management, including the named executive officers, certain supplemental life insurance benefits and paid premiums for this supplemental coverage of approximately $250 each. AOL Time Warner also maintained split-dollar life insurance policies on the lives of Messrs. Parsons, Bewkes, Logan and Levin and paid the following

amounts allocated to the term portion of the split-dollar coverage for 2002: Mr. Parsons, $5,242; Mr. Bewkes, $3,227; Mr. Logan, $4,811; and Mr. Levin, $25,846. The actuarial equivalent of the value of the premiums paid by AOL Time Warner for 2002 based on certain assumptions regarding interest rates and periods of coverage are: Mr. Parsons, $82,933; Mr. Bewkes, $59,047; Mr. Logan, $33,889; and Mr. Levin, $32,752. The premium on one of two policies for Mr. Logan was not paid in 2002 pursuant to an extended grace period. It is anticipated that AOL Time Warner will recover the net after-tax cost of the premiums on these policies or the cash surrender value thereof. For a description of life insurance coverage for certain executive officers provided pursuant to the terms of their employment agreements, see "Employment Arrangements."

Stock Option Grants During 2002

The following table sets forth certain information with respect to employee options to purchase shares of AOL Time Warner Common Stock ("options") awarded during 2002 to the named executive officers. All such options were nonqualified options. No stock appreciation rights, alone or in tandem with such stock options, were awarded in 2002.

STOCK OPTION GRANTS IN 2002

	Individual Grants(1)				
Name	Number of Securities Underlying Options Granted	Percent of Total Options Granted to Employees in 2002	Exercise or Base Price($/sh)	Expiration Date	Grant Date Present Value(2)
Stephen M. Case	0	—	—	—	—
Richard D. Parsons	300,000	.3%	$18.88	5/15/12	$2,141,678
Kenneth J. Novack	0	—	—	—	—
Jeffrey L. Bewkes	500,000	.4%	$26.65	2/14/12	$5,099,513
	150,000	.1%	$12.46	7/17/12	706,714
Don Logan	500,000	.4%	$26.65	2/14/12	$5,099,513
	150,000	.1%	$12.46	7/17/12	706,714
Gerald M. Levin	0	—	—	—	—
Robert W. Pittman	210,000	.2%	$18.88	5/15/12	$1,499,174

(1) Options for executive officers have been awarded pursuant to plans approved by the stockholders, except for the awards made to Messrs. Bewkes and Logan in February 2002 before they became executive officers of AOL Time Warner. The terms are governed by the plans and the recipient's option agreement. The option exercise price is the fair market value of AOL Time Warner Common Stock on the date of grant. The options shown in the table become exercisable in installments of 25% on the first four anniversaries of the date of grant, subject to acceleration upon the occurrence of certain events. Payment of the exercise price of an option may be made in cash and/or full shares of AOL Time Warner Common Stock already owned by the holder of the option. The payment of withholding taxes due upon exercise of an option may generally be made in cash and/or full shares of AOL Time Warner Common Stock.

(2) These amounts represent the estimated present value of stock options at the respective date of grant, calculated using the Black-Scholes option pricing model, based upon the following assumptions used in developing the grant valuations: an expected volatility of 52.9% based on the historical volatility of AOL Time Warner Common Stock; an expected term to exercise of .47 years after vesting; a risk-free rate of return of 4.20% for the first awards listed for Messrs. Bewkes and Logan and 3.70% for the other awards; and a dividend yield of 0%. The actual value of the options, if any, realized by an officer will depend on the extent to which the market value of the AOL Time Warner Common Stock exceeds the exercise price of the option on the date the option is exercised. Consequently, there is no assurance that the value

realized by an officer will be at or near the value estimated above. These amounts should not be used to predict stock performance.

Option Exercises and Values in 2002

The following table sets forth as to each of the named executive officers information on option exercises during 2002 and the status of his options on December 31, 2002: (i) the number of shares of AOL Time Warner Common Stock underlying options exercised during 2002; (ii) the aggregate dollar value realized upon exercise of such options; (iii) the total number of shares of AOL Time Warner Common Stock underlying exercisable and nonexercisable stock options held on December 31, 2002; and (iv) the aggregate dollar value of in-the-money exercisable and nonexercisable stock options on December 31, 2002. The number of shares covered and the option exercise prices have been adjusted to reflect the exchange ratios of common stock of America Online and Time Warner for AOL Time Warner Common Stock on the Merger Date and AOL Time Warner's assumption on the Merger Date of the option plans and agreements under which the options were awarded.

AGGREGATE OPTION EXERCISES DURING 2002
and
OPTION VALUES ON DECEMBER 31, 2002

Name	Number of Shares Underlying Options Exercised	Dollar Value Realized on Exercise	Number of Shares Underlying Unexercised Options on 12/31/02(5)		Dollar Value of Unexercised In-the-Money Options on 12/31/02* (5)	
			Exercisable	Nonexercisable	Exercisable	Nonexercisable
Stephen M. Case(1) ..	909,108	$25,225,474	18,765,592	3,875,000	$99,381,574	$ 0
Richard D. Parsons ...	—	$ —	3,600,003	3,099,997	$ 246,000	$ 0
Kenneth J. Novack ...	48,000	$ 1,089,480	5,663,000(2)	2,000,000	$ 6,025,990(2)	$ 0
Jeffrey L. Bewkes	—	—	2,927,093	2,462,499	$ 1,564,255	$96,000
Don Logan(3)	—	—	2,972,500	1,812,500	$ 159,496	$96,000
Gerald M. Levin(1) ...	1,500,000	$19,910,000	8,816,254	3,249,997	$ 3,772,800	$ 0
Robert W. Pittman(4)	1,500,000	$20,646,750	17,377,255	—	$66,074,321	$ 0

* Calculated using the fair market value of $13.10 per share of AOL Time Warner Common Stock on December 31, 2002 minus the option exercise price.

(1) The options exercised by each of Messrs. Case and Levin would have expired in 2003. In connection with the exercise of these options, Mr. Levin used AOL Time Warner Common Stock to pay the taxes due and retained the remainder of the shares received upon exercise and Mr. Case retained, and continues to hold, all of the shares received upon exercise.

(2) Includes 855,812 exercisable options that Mr. Novack transferred to grantor retained annuity trusts for the benefit of members of his family. At December 31, 2002, these options had a value of $1,150,813.

(3) Includes 144,996 exercisable options that Mr. Logan transferred to a family-owned limited partnership. At December 31, 2002, these options had a value of $159,496.

(4) All of the options exercised by Mr. Pittman were held by a family-owned limited partnership. His year-end holdings include 797,255 exercisable options that Mr. Pittman transferred to a family-owned limited partnership. At December 31, 2002, these options had a value of $9,169,121.

(5) All options awarded prior to 2000 held by Messrs. Parsons, Bewkes, Logan and Levin became immediately exercisable in full upon the approval by Time Warner's board of directors of the Merger on January 9, 2000. All options awarded prior to 2000 held by Messrs. Case and Novack became immediately exercisable in full on the Merger Date and all such options held by Mr. Pittman became immediately exercisable on the first anniversary of the Merger Date. All options awarded to Mr. Pittman in or after 2000 became immediately exercisable in full in September 2002.

The option exercise price of all the options held by the named executive officers is the fair market value of the AOL Time Warner Common Stock on the date of grant except for (1) half of the regular annual options awarded to Messrs. Parsons and Levin in 1996 through 2000, half of the options awarded to each of the named executive officers, except Messrs. Bewkes and Logan, in 2001 and 1,500,000 of Mr. Levin's options awarded in 1993, half of which have an exercise price 25% above the fair market value of the common stock on the date of grant and the other half of which have an exercise price 50% above such fair market value and (2) options awarded to Messrs. Case and Pittman in 1997 which have an exercise price 30% above the fair market value of the common stock on the date of grant. All such nonqualified options permit a portion of each award to be transferred by gift directly or indirectly to members of the holder's immediate family. The stock option agreements may permit optionees to defer receipt of the shares of AOL Time Warner Common Stock receivable upon exercise of options governed by such stock option agreements to a future date elected by the optionee, thereby deferring the recognition of income by the optionee (and AOL Time Warner's tax deduction) until such future date. During the deferral period, the shares are not outstanding, do not vote and do not pay dividends; however, AOL Time Warner has agreed to pay the optionee dividend equivalents during the deferral period, to the extent dividends are paid.

The options held by the named executive officers remain exercisable for three months to five years in the event their employment is terminated without cause or as a result of AOL Time Warner's breach of an employment agreement. For some executive officers, some of their options remain exercisable for the full term of the options if their employment is terminated for any reason other than for cause, including death. Otherwise, options may generally be exercised for one or three years after death or total disability (depending on their date of grant) and some options may be exercised for five years after retirement. All options terminate either immediately or one month after the holder's employment is terminated for cause. The terms of the options shown in the chart are generally ten years, although 960,000 options held by Mr. Levin and 188,592 options held by Mr. Bewkes have a term of 15 years from the date of their award in 1989.

Employment Arrangements

AOL Time Warner is a party to employment agreements with Messrs. Parsons, Novack, Bewkes, Logan and Levin. The expiration dates of these agreements are: Mr. Parsons — January 31, 2005; Mr. Novack — December 31, 2003; Mr. Bewkes — December 31, 2003; Mr. Logan — December 31, 2004; and Mr. Levin — December 31, 2005. AOL Time Warner also was a party to an employment agreement with Mr. Pittman that did not have a fixed term.

Among other things, the agreements with Messrs. Parsons and Novack each provide for a fixed term of employment in a specified executive post; minimum annual salary of $1 million and participation in AOL Time Warner stock option and other compensation and benefit plans, including $50,000 of group term life insurance. These agreements do not provide for the payment of an annual cash bonus. The agreements with Messrs. Bewkes and Logan were entered into with the divisions for which they served as Chairman and Chief Executive Officer prior to their election as executive officers of AOL Time Warner in July 2002. These agreements, which have been assumed by AOL Time Warner, provide for a minimum annual salary of $1 million, an annual cash bonus of not less than $2.75 million with respect to Mr. Bewkes and a discretionary cash bonus in a target amount of $3 million with respect to Mr. Logan, and participation in AOL Time Warner stock option and other compensation and benefit plans, including group life insurance. In addition, the agreements with Messrs. Parsons, Bewkes, Logan and Levin provide for (1) life insurance benefits in the amount of $5 million, $4 million, $4 million and $6 million, respectively, to be provided by split-dollar policies for the life of the executive under which AOL Time Warner recovers an amount equal to the net after-tax cost of the premiums paid by AOL Time Warner or the policies' cash surrender value, (2) for Messrs. Parsons and Levin, a cash payment equal to the premium for coverage under a Group Universal Life ("GUL") insurance program made available by AOL Time Warner in an amount equal to twice the executive's salary, minus $50,000 and (3) for Mr. Logan, a cash payment equal to two times the premium he would have to pay to obtain life insurance under AOL Time Warner's GUL insurance program in an amount equal to twice his salary. Mr. Novack's agreement provides for a cash payment equal to two times the premium for $4 million of GUL insurance coverage.

The agreements with Messrs. Parsons, Novack, Bewkes, Logan and Levin include a narrow definition of the "cause" for which an executive's employment may be terminated and in that event, the executive will only receive earned and unpaid base salary accrued through such date of termination.

These agreements provide that in the event of AOL Time Warner's material breach or termination of the executive's employment without cause, the executive will be entitled to elect either (a) to receive a lump-sum payment equal to the present value of the compensation otherwise payable during the remaining portion of the executive's term of employment or a specified minimum period of time if less than such remains in the term of the agreement or (b) to remain an employee of AOL Time Warner through the end of such period and, without having to perform any services, receive such compensation as if there had been no breach or termination. These executives are not required to mitigate damages after such a termination, other than as necessary to prevent AOL Time Warner from losing any tax deductions to which it otherwise would have been entitled for any payments deemed to be "contingent on a change" of control under the Internal Revenue Code. These agreements also provide that in the event of AOL Time Warner's material breach or termination of the executive's employment without cause, a portion or all of the unvested stock options granted to such executive will vest and vested stock options will remain exercisable for a period of time longer than would generally apply to stock options awarded by AOL Time Warner.

Mr. Parsons' agreement allows him, effective on or after January 1, 2002 and with not less than six months' prior notice to AOL Time Warner, to terminate his executive position and become an advisor to AOL Time Warner for the remainder of the agreement term. In that case his advisory compensation would be equal to $500,000 per year.

Mr. Logan's agreement allows him to elect in September 2003 to terminate his active employment with AOL Time Warner effective as of January 1, 2004 and become an advisor to AOL Time Warner through June 30, 2007 at an annual salary equal to $1.25 million, but with no bonus. If he remains with AOL Time Warner through the December 31, 2004 term of the agreement, Mr. Logan can elect to become an advisor to AOL Time Warner thereafter through December 31, 2009 at an annual salary equal to $1.25 million.

Mr. Bewkes' agreement also provides that if he and AOL Time Warner have not reached written agreement regarding his employment with AOL Time Warner by the end of the term, then Mr. Bewkes may elect to (a) leave AOL Time Warner with a lump sum payment in exchange for additional limits on his ability to accept employment with competitors of AOL Time Warner following his departure, (b) leave AOL Time Warner without a lump sum payment and without being subject to such additional limits on his ability to compete with AOL Time Warner, or (c) remain an employee of AOL Time Warner for an additional 6 or 12 months.

If Messrs. Parsons, Novack, Bewkes, Logan or Levin should become disabled during the term of his employment agreement, the executive will receive full salary for six months and then 75% thereof through the end of the employment term. Any such payments will be reduced by amounts received from Worker's Compensation, Social Security and disability insurance policies maintained by AOL Time Warner.

If an executive dies during the term of an employment agreement, the executive's beneficiaries will receive the executive's earned and unpaid salary to the last day of the month in which the death occurs.

Mr. Levin's agreement allowed him, effective on or after May 1, 2002 and with not less than five months' prior notice to AOL Time Warner, to terminate his position as Chief Executive Officer and become an advisor to AOL Time Warner through December 31, 2005. His advisory compensation will be $1 million per year, which was equal to his annual salary. Mr. Levin delivered this notice to AOL Time Warner in December 2001, stepped down as Chief Executive Officer in May 2002 and is currently serving as an advisor to AOL Time Warner.

In October 1996, America Online entered into an employment agreement with Mr. Pittman which did not have a fixed term and which AOL Time Warner assumed. This agreement provided that, in the event Mr. Pittman's employment agreement were terminated under certain circumstances, including by him for a good reason or by AOL Time Warner other than for cause, he would become a consultant of AOL Time Warner for a term of two years, subject to the terms and conditions of a consulting agreement. Pursuant to the

terms of this agreement, Mr. Pittman will be a consultant to AOL Time Warner for the two years ending September 30, 2004. As part of an agreement entered into in connection with his departure, Mr. Pittman agreed to forego the $1 million annual consulting fee he would have received under the consulting agreement and AOL Time Warner agreed that stock options granted to him after September 1, 1998 will remain exercisable through September 30, 2007. Mr. Pittman is subject to the terms of a confidentiality/non-competition/proprietary rights agreement that remains in effect for the term of the consulting agreement.

In addition, prior to 2001, pursuant to their employment agreements then in place, Time Warner made contributions for each of Messrs. Parsons, Bewkes, Logan and Levin to separate non-current compensation accounts in a grantor trust or under its deferred compensation plan. Effective beginning January 2001, AOL Time Warner terminated these contributions, but existing accounts will continue to be invested and paid out following termination of employment in accordance with their terms.

Time Warner Pension Plan — AOLTW

The Time Warner Employees' Pension Plan, as amended (the "Old Pension Plan"), which provides benefits to eligible employees, including officers, of AOL Time Warner and certain of its subsidiaries, was amended effective as of January 1, 2000, as described below, and was renamed and assumed by AOL Time Warner in connection with the Merger (the "Amended Pension Plan" and, together with the Old Pension Plan, the "Pension Plans"). Because of certain grandfathering provisions, the benefit of participants with a minimum of ten years of benefit service whose age and years of benefit service equal or exceed 65 years as of January 1, 2000, including Messrs. Bewkes and Levin, will be determined under either the provisions of the Old Pension Plan or the Amended Pension Plan, whichever produces the greater benefit.

Under the Amended Pension Plan, a participant accrues benefits equal to the sum of 1.25% of a participant's average annual compensation (defined as the highest average annual compensation for any five consecutive full calendar years of employment, which includes regular salary, overtime and shift differential payments, and non-deferred bonuses paid according to a regular program) not in excess of his covered compensation up to the applicable average Social Security wage base and 1.67% of his average annual compensation in excess of such covered compensation multiplied by his years of benefit service (not in excess of 30). Compensation for purposes of calculating average annual compensation under the Pension Plans is limited to $200,000 per year for 1988 through 1993, $150,000 per year for 1994 through 2001 and $200,000 per year for 2002 and thereafter (each subject to adjustments provided in the Internal Revenue Code of 1986, as amended). Eligible employees become vested in all benefits under the Pension Plans on the earlier of five years of service or certain other events.

Under the Old Pension Plan, a participant accrues benefits on the basis of 1⅔% of the average annual compensation (defined as the highest average annual compensation for any five consecutive full and partial calendar years of employment, which includes regular salary, overtime and shift differential payments, and non-deferred bonuses paid according to a regular program) for each year of service up to 30 years and ½% for each year of service over 30. Annual pension benefits under the Old Pension Plan are reduced by a Social Security offset determined by a formula that takes into account benefit service up to 35 years, covered compensation up to the average Social Security wage base and a disparity factor based on the age at which Social Security benefits are payable (the "Social Security Offset"). Under both of the Pension Plans, the pension benefit of participants on December 31, 1977 in the former Time Employees' Profit-Sharing Savings Plan (the "Profit Sharing Plan") is further reduced by a fixed amount attributable to a portion of the employer contributions and investment earnings credited to such employees' account balances in the Profit Sharing Plan as of such date (the "Profit Sharing Plan Offset").

Under the Amended Pension Plan, employees who are at least 62 years old and have completed at least ten years of service may elect early retirement and receive the full amount of their annual pension. Under the Old Pension Plan, employees who are at least 60 years old and have completed at least ten years of service may elect early retirement and receive the full amount of their annual pension ("early retirement"). An early retirement supplement is payable to an employee terminating employment at age 55 and before age 60, after 20 years of service, equal to the actuarial equivalent of such person's accrued benefit, or, if greater, an annual

amount equal to the lesser of 35% of such person's average compensation determined under the Old Pension Plan or such person's accrued benefit at age 60 plus Social Security benefits at age 65. The supplement ceases when the regular pension commences at age 60.

Federal law limits both the amount of compensation that is eligible for the calculation of benefits and the amount of benefits derived from employer contributions that may be paid to participants under both of the Pension Plans. However, as permitted by the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), AOL Time Warner has adopted the Time Warner Excess Benefit Pension Plan — AOLTW (the "Excess Plan"). The Excess Plan provides for payments by AOL Time Warner of certain amounts which employees of AOL Time Warner would have received under the Pension Plans if eligible compensation were limited to $250,000 in 1994 (increased 5% per year thereafter, to a maximum of $350,000) and there were no payment restrictions. For purposes of the Excess Plan, the $200,000 limit (as indexed for years after 1989) on eligible compensation will only apply to compensation received in 1988 through 1993; the $250,000 limit (as adjusted) will apply to compensation received in 1994 and thereafter.

The following table shows the estimated annual pension payable upon retirement to employees in specified remuneration and years-of-service classifications under the Amended Pension Plan. The amount of the estimated annual pension is based upon a pension formula which applies to all participants in both the Amended Pension Plan and the Excess Plan. The amounts shown in the table do not reflect the effect of the previously-described Profit Sharing Plan Offset. The estimated amounts are based on the assumption that payments under the Amended Pension Plan will commence upon normal retirement (generally age 65) or early retirement, that the Amended Pension Plan will continue in force in its present form, that the maximum compensation is $350,000 and that no joint and survivor annuity will be payable (which would on an actuarial basis reduce benefits to the employee but provide benefits to a surviving beneficiary). Amounts calculated under the pension formula which exceed ERISA limits will be paid under the Excess Plan from AOL Time Warner's assets and are included in the amounts shown in the following table.

Highest Consecutive Five Year Average Compensation	Estimated Annual Pension for Years of Benefit Service				
	10	15	20	25	30
$200,000	$31,553	$47,330	$ 63,107	$ 78,883	$ 94,660
250,000	39,903	59,855	79,807	99,758	119,710
300,000	48,253	72,380	96,507	120,633	144,760
350,000	56,603	84,905	113,207	141,508	169,810
400,000	56,603	84,905	113,207	141,508	169,810

The amount of covered compensation that would be considered in the determination of the highest five consecutive full or partial years of compensation under the Pension Plans and the Excess Plan for each of Messrs. Case, Parsons, Novack, Bewkes, Logan and Levin is limited as a result of the imposition of the limitations on eligible compensation. However, because combined payments under the Pension Plans and the Excess Plan are based on the highest average annual compensation for any five consecutive full or partial calendar years of employment (taking into account the compensation limits only for 1988 and thereafter), the compensation used for determining benefits under such Plans for Mr. Levin (and employees who participated in the Pension Plan prior to 1988) will include eligible compensation in years prior to 1988 which exceeded these limits. The estimated annual benefits payable under the Amended Pension Plan and the Excess Plan, as of February 1, 2003, would be based on average compensation of $350,000 for Mr. Case; $331,394 for Mr. Parsons; $350,000 for Mr. Novack; $331,394 for Mr. Bewkes; $331,394 for Mr. Logan; and $729,248 for Mr. Levin, with 2.1, 8.2, 2.1, 22.9, 32.8 and 30.8 years of benefit service, respectively. In addition, pursuant to his employment agreement, Mr. Parsons will be entitled to receive supplemental payments from AOL Time Warner that will achieve a total retirement benefit equal to what he would have received if he had five additional years of benefit service under the Amended Pension Plan. Mr. Pittman is not eligible to participate in the Pension Plans. However, as a result of Mr. Pittman's previous employment by Time Warner, at age 65, he is entitled to start receiving an annual benefit of $21,978 under the Amended Pension Plan and the Excess Plan. The estimated annual pension payable to each Mr. Levin and Mr. Bewkes under the Old Pension Plan and the Excess Plan upon retirement based on the indicated remuneration and years of service would be

$361,891 and $177,302, respectively. These amounts are greater than the estimated annual benefit payable under the Amended Pension Plan and the Excess Plan.

Item 12. *Security Ownership of Certain Beneficial Owners and Management*

Ownership by Partners of TWE

The table below sets forth, as of March 15, 2003, the pro rata priority capital and residual equity interests of each AOLTW General Partner and each Limited Partner in TWE. Subsidiaries of AOL Time Warner and the AOLTW General Partners collectively own 72.36% of the pro rata priority capital and residual equity capital and 100% of the priority capital interests junior to the pro rata priority capital interests. Each AOLTW General Partner is a direct or indirect wholly owned subsidiary of AOL Time Warner. The TWE Holdings Trusts are Delaware statutory trusts all of the beneficial interests of which are held indirectly by Comcast Corporation.

	Residual Equity Interest
AOL Time Warner General Partners	
American Television and Communications Corporation	30.48%
Warner Communications Inc.	41.88%
Limited Partners	
TWE Holdings I Trust	2.86%
TWE Holdings III Trust	24.78%
	100.00%

The address of the principal executive offices of each of the companies listed above is as follows: Warner Communications Inc.: 75 Rockefeller Plaza, New York, New York 10019; American Television and Communications Corporation: 290 Harbor Drive, Stamford, Connecticut 06902; and TWE Holdings Trusts, c/o Edith H. Holiday, Operating Trustee, 801 West Street, 2nd Floor, Wilmington, Delaware 19801.

Security Ownership of Certain Beneficial Owners

Set forth below is the name, address, stock ownership and voting power of each person or group of persons known by TWE to own beneficially securities of AOL Time Warner having more than 5% of the voting power of any class of AOL Time Warner's voting securities and, unless otherwise indicated, is based on information provided to AOL Time Warner as of January 31, 2003 by the beneficial owner. Subsidiaries of AOL Time Warner collectively own 72.36% of the pro rata priority capital and residual equity partnership interests in TWE.

Name and Address of Beneficial Owner	Shares of Stock Beneficially Owned	Percent of Class	Percent of Voting Power
AOL Time Warner Common Stock			
Capital Research and Management Company(1)	305,020,820	7.1%	7.1%
333 South Hope Street			
Los Angeles, CA 90071			
FMR Corp.(2)	217,653,377	5.0	5.0
82 Devonshire Street			
Boston, MA 02109			
AOL Time Warner Series LMCN-V Stock			
Liberty Media Corporation(3)	171,185,826	100.0	*
12300 Liberty Boulevard			
Englewood, CO 80112			

* Less than 1%

(1) Beneficial ownership is as of December 31, 2002. Capital Research and Management Company, an investment adviser, has filed with the SEC a statement on Schedule 13G dated February 10, 2003 to the effect that (a) it (directly or indirectly) has sole dispositive power over all these shares, (b) it has voting power over none of these shares and (c) all of the reported shares are held for the benefit of its clients.

(2) Beneficial ownership is as of December 31, 2002. FMR Corp., a holding company, has filed with the SEC a statement on Schedule 13G dated February 14, 2003 to the effect that (a) it (directly or indirectly) has sole dispositive power over all these shares, (b) it has sole voting power over 15,315,805 of these shares and no shared voting power, (c) these shares are held principally by Fidelity Management & Research Company, a wholly-owned investment adviser, (d) the shares of AOL Time Warner Common Stock reported as beneficially owned include 114,926 shares of AOL Time Warner Common Stock reported as issuable upon the conversion of $19,700,000 principal amount of 3% Convertible Subordinated Notes due 2019 of America Online and 1,311,440 shares of AOL Time Warner Common Stock issuable upon conversion of securities of other issuers (these shares have been excluded from the calculation of voting power), (e) these shares are, for the most part, held by investment companies and institutional accounts managed by subsidiaries of FMR Corp. and (f) the family of Edward C. Johnson 3d, including Mr. Johnson, the Chairman of FMR Corp., and his daughter Abigail Johnson, a director, and trusts for the family members' benefit may be deemed to form a controlling group with respect to FMR Corp.

(3) Consists of shares beneficially owned by Liberty Media Corporation through its direct and indirect subsidiaries. Under certain circumstances, each share of Series LMCN-V Stock is convertible into one share of AOL Time Warner Common Stock; such circumstances are not currently present. Each share of Series LMCN-V Stock currently has 1/100 of a vote with respect to the election of directors and class voting rights on limited other matters.

Security Ownership of Management

The following table sets forth as of January 31, 2003 information concerning the beneficial ownership of AOL Time Warner Common Stock for each current representative of TWE and each current member of the

board of directors of one or more of the AOLTW General Partners, each of the persons named in the Summary Compensation Table above and for all current representatives, directors and executive officers of TWE and the AOLTW General Partners as a group.

Name	Common Stock Beneficially Owned(1) Number of Shares	Option Shares(2)	Percent of Class
Jeffrey L. Bewkes(8)	24,825	3,739,592	*
Stephen M. Case(3)(8)	12,471,741	19,765,592	*
Gerald M. Levin(4)	165,010	8,566,251	*
Don Logan(8)	59,664	3,585,000	*
Kenneth J. Novack(5)(8)	4,840	6,163,000	*
Richard D. Parsons(6)(8)	38,435	4,650,000	*
Robert W. Pittman(7)	15,309	16,377,255	*
All current representatives, directors and executive officers (11 persons) as a group(2),(3),(5),(6),(8)	12,658,818	43,183,790	1.3%

* Represents beneficial ownership of less than one percent of the issued and outstanding AOL Time Warner Common Stock on January 31, 2003.

(1) Beneficial ownership as reported in the above table has been determined in accordance with Rule 13d-3 of the Securities Exchange Act of 1934. Unless otherwise indicated, beneficial ownership represents both sole voting and sole investment power. This table does not include, unless otherwise indicated, any shares of AOL Time Warner Common Stock or other equity securities of AOL Time Warner which may be held by pension and profit-sharing plans of other corporations or endowment funds of educational and charitable institutions for which various representatives, directors and officers serve as directors or trustees. As of January 31, 2003, the only equity securities of AOL Time Warner beneficially owned by the named persons or group were shares of AOL Time Warner Common Stock and options to purchase AOL Time Warner Common Stock.

(2) Reflects shares of AOL Time Warner Common Stock subject to options to purchase AOL Time Warner Common Stock issued by AOL Time Warner which, on January 31, 2003, were unexercised but were exercisable on or within 60 days after that date. These shares are excluded from the column headed "Number of Shares." 144,996 of the stock options shown for Mr. Logan have been transferred to a limited partnership owned by members of his family and 211,700 of the stock options shown for Mr. Novack have been transferred to grantor retained annuity trusts for the benefit of members of his family.

(3) Includes 243,752 shares of AOL Time Warner Common Stock held by Mr. Case's wife and 1,199,550 shares of AOL Time Warner Common Stock held by the Stephen M. Case Foundation. Mr. Case and his wife are the sole directors of this Foundation but do not exercise day-to-day investment authority. Mr. Case disclaims beneficial ownership of shares held by his wife and the Stephen M. Case Foundation.

(4) Includes 45,000 shares of AOL Time Warner Common Stock held by Mr. Levin's wife and approximately 33,877 shares of AOL Time Warner Common Stock held by a trust under the AOL Time Warner Savings Plan for his benefit. Mr. Levin disclaims beneficial ownership of shares held by his wife.

(5) Includes 375 shares of AOL Time Warner Common Stock held by an irrevocable trust for the benefit of Mr. Novack's children, one of whom is a minor, and 525 shares of AOL Time Warner Common Stock held by the Novack Family Foundation of which Mr. Novack and his wife are two of nine trustees. Mr. Novack disclaims beneficial ownership of shares held by the trust and the Novack Family Foundation.

(6) Includes 200 shares of AOL Time Warner Common Stock held by Mr. Parsons' wife and 2,000 shares of AOL Time Warner Common Stock held by The Parsons Family Foundation, Inc. of which Mr. Parsons

is one of six directors. Mr. Parsons disclaims beneficial ownership of shares held by his wife and The Parsons Family Foundation, Inc.

(7) Includes 1,920 shares of AOL Time Warner Common Stock held by the Pittman Family Foundation of which Mr. Pittman and his wife are the sole trustees and approximately 106 shares of AOL Time Warner Common Stock held by a trust under the AOL Time Warner Savings Plan for his benefit. Mr. Pittman disclaims beneficial ownership of the shares held by the Pittman Family Foundation.

(8) Includes (a) an aggregate of approximately 42,720 shares of AOL Time Warner Common Stock held by a trust under the AOL Time Warner Savings Plan for the benefit of current directors and executive officers of AOL Time Warner (including 462 shares for Mr. Case, 24,825 shares for Mr. Bewkes, 14,529 shares for Mr. Logan; 417 shares for Mr. Novack, and 946 shares for Mr. Parsons), (b) an aggregate of 243,952 shares of AOL Time Warner Common Stock beneficially owned by certain relatives of such persons and (c) an aggregate of 356,696 stock options that have been transferred to entities for the benefit of relatives of such persons.

Item 13. *Certain Relationships and Related Transactions*

Corporate Services

AOL Time Warner provides TWE with corporate support services and facilities (including, without limitation, internal accounting, financial, tax, legal and similar administrative and other services) as may be necessary or appropriate for TWE to conduct the businesses that were contributed to TWE in the manner that such businesses were conducted by Time Warner and its subsidiaries prior to the capitalization of TWE on June 30, 1992 (the "TWE Capitalization"). As compensation and reimbursement for the cost of providing such services and facilities, TWE paid AOL Time Warner fees in the amount of $105 million, $77 million and $74 million in 2002, 2001 and 2000, respectively.

Option Reimbursement

Upon the exercise of options to purchase securities of AOL Time Warner by any officer or other employee of TWE or of any "strategic venture" of TWE, including, without limitation, Warner Japan, or of AOL Time Warner or any of its subsidiaries who in such capacity performs substantially all of his or her duties on behalf of TWE or any such "strategic venture," TWE or such "strategic venture" must reimburse AOL Time Warner for the amount by which the market price of such securities on the exercise date exceeds the exercise price, or with respect to options granted prior to the TWE Capitalization, the greater of the exercise price and the market price of such securities as of the TWE Capitalization (such reimbursement is hereinafter called a "Stock Option Distribution"). At December 31, 2002, TWE had accrued $8 million of Stock Option Distributions payable to AOL Time Warner. Such amount, which is not payable until the underlying options are exercised and then only subject to limitations on cash distributions in accordance with the TWE credit agreement, will be adjusted in subsequent accounting periods based on changes in the quoted market prices for the underlying securities. Such amount would increase (decrease) by approximately $54 million for each one dollar increase (decrease) in the closing price of AOL Time Warner AOL Time Warner Common Stock. See Notes 10 and 11 to the TWE consolidated financial statements included herein.

Warner Japan Distribution Agreements

Concurrently with the closing of the Warner Japan transaction, TWE and Warner Japan entered into distribution and merchandising agreements pursuant to which TWE granted to Warner Japan the right to engage in theatrical and non-theatrical, television and home video distribution in Japan as well as the right to engage in the licensing and merchandising of TWE's copyrights and trademarks in Japan. Such agreements provide that Warner Japan will receive distribution fees generally comparable to those currently received by TWE for performing distribution services for unaffiliated third parties.

Other Arrangements and Transactions

The TWE Partnership Agreement expressly permits Time Warner and TWE to continue certain arrangements and transactions that prior to the TWE Capitalization existed between Time Warner and certain of the subsidiaries of Time Warner that contributed assets to TWE at the TWE Capitalization, to the extent that such arrangements and transactions relate to the businesses that were contributed. The TWE Partnership Agreement also permits Time Warner to enter into additional similar arrangements and transactions with TWE in the ordinary course of business consistent with past practice as well as any new arrangements and transactions with TWE on an arm's-length basis. For additional information regarding such arrangements, see Note 15 to TWE's consolidated financial statements included herein and Note 16 to the AOLTW General Partners' consolidated financial statements included herein.

For information with respect to the revolving credit agreements between the General Partners and Time Warner Companies, Inc., see Note 8 to the AOLTW General Partners' consolidated financial statements included herein.

Item 14. *Controls and Procedures*

Within the 90-day period prior to the filing of this report, TWE, under the supervision and with the participation of its management, including the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of TWE's "disclosure controls and procedures" (as defined in Rule 13a-14(c) under the Securities Exchange Act of 1934 (the "Exchange Act")). Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that TWE's disclosure controls and procedures are effective in timely making known to them material information relating to TWE and TWE's consolidated subsidiaries required to be disclosed in TWE's reports filed or submitted under the Exchange Act. TWE has investments in certain unconsolidated entities. As TWE does not control or manage these entities, its disclosure controls and procedures with respect to such entities are necessarily substantially more limited than those it maintains with respect to its consolidated subsidiaries. There have been no significant changes in TWE's internal controls or in other factors that could significantly affect the internal controls subsequent to the date TWE completed its evaluation.

PART IV

Item 15. *Exhibits, Financial Statement Schedules, and Reports On Form 8-K*

(a)(1)-(2) Financial Statements and Schedules:

The consolidated financial statements and schedules set forth in the accompanying Index to Consolidated Financial Statements and Other Financial Information at page F-1 herein are filed as part of this report and are incorporated herein by reference.

All other financial statement schedules are omitted because the required information is not applicable, or because the information required is included in the consolidated financial statements and notes thereto.

(3) Exhibits:

The exhibits listed on the accompanying Exhibit Index are filed or incorporated by reference as part of this report and such Exhibit Index is incorporated herein by reference.

(b) Reports on Form 8-K.

TWE and the AOLTW General Partners filed the following report on Form 8-K during the quarter ended December 31, 2002 and in 2003 through March 21, 2003:

	Item #	Description	Date
(i)	5	Reporting the closing of the Time Warner Entertainment — Advance/Newhouse Partnership restructuring.	December 31, 2002

SIGNATURES

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

TIME WARNER ENTERTAINMENT COMPANY, L.P.
By: Warner Communications Inc.,
as General Partner

By: /s/ WAYNE H. PACE
Name: Wayne H. Pace
Title: Executive Vice President and Chief Financial Officer

AMERICAN TELEVISION AND COMMUNICATIONS CORPORATION ("ATC")
WARNER COMMUNICATIONS INC. ("WCI")

By: /s/ WAYNE H. PACE
Name: Wayne H. Pace
Title: Executive Vice President and Chief Financial Officer

Date: March 28, 2003

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons in the capacities indicated on March 28, 2003.

Signature	Title
/s/ RICHARD D. PARSONS **(Richard D. Parsons)**	Director of ATC and WCI and Chief Executive Officer of each Registrant (Principal Executive Officer)
/s/ WAYNE H. PACE **(Wayne H. Pace)**	Executive Vice Pres. and Chief Financial Officer of each Registrant (Principal Financial Officer)
/s/ JAMES W. BARGE **(James W. Barge)**	Senior Vice Pres. and Controller of each Registrant (Principal Accounting Officer)
/s/ JEFFREY BEWKES **(Jeffrey Bewkes)**	Director of ATC and WCI
/s/ DON LOGAN **(Don Logan)**	Director of ATC and WCI

CERTIFICATIONS

I, Richard D. Parsons, certify that:

1. I have reviewed this annual report on Form 10-K of Time Warner Entertainment Company, L.P. and its General Partners, American Television and Communications Corporation and Warner Communications Inc.;

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

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

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

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

b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c. presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function);

a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ RICHARD D. PARSONS

Name: Richard D. Parsons
Title: Chief Executive Officer
Time Warner Entertainment Company, L.P.
American Television and Communications Corporation
Warner Communications Inc.

Date: March 28, 2003

I, Wayne H. Pace, certify that:

1. I have reviewed this annual report on Form 10-K of Time Warner Entertainment Company, L.P. and its General Partners, American Television and Communications Corporation and Warner Communications Inc.;

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

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

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

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

b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c. presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function);

a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ WAYNE H. PACE

Name: Wayne H. Pace
Title: Chief Financial Officer
Time Warner Entertainment Company, L.P.
American Television and Communications Corporation
Warner Communications Inc.

Date: March 28, 2003

TIME WARNER ENTERTAINMENT COMPANY, L.P. AND TWE GENERAL PARTNERS
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TIME WARNER ENTERTAINMENT COMPANY, L.P.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

INTRODUCTION

Management's discussion and analysis of results of operations and financial condition ("MD&A") is provided as a supplement to the accompanying consolidated financial statements and footnotes to help provide an understanding of Time Warner Entertainment Company, L.P.'s ("TWE" or the "Company") financial condition, changes in financial condition and results of operations. The MD&A is organized as follows:

- *Overview.* This section provides a general description of TWE's businesses, as well as recent developments that have either occurred during 2002 or early 2003 that the Company believes are important in understanding the results of operations, as well as to anticipate future trends in those operations.
- *Results of operations.* This section provides an analysis of the Company's results of operations for all three years presented in the accompanying consolidated statement of operations. This analysis is presented on both a consolidated and segment basis. In addition, a brief description is provided of significant transactions and events that impact the comparability of the results being analyzed.
- *Financial condition and liquidity.* This section provides an analysis of the Company's cash flows, as well as a discussion of the Company's outstanding debt and commitments, both firm and contingent, that existed as of December 31, 2002. Included in the discussion of outstanding debt is a discussion of the amount of financial capacity available to fund the Company's future commitments, as well as a discussion of other financing arrangements.
- *Market risk management.* This section discusses how the Company manages exposure to potential loss arising from adverse changes in interest rates, foreign currency exchange rates and changes in the market value of investments.
- *Critical accounting policies.* This section discusses those accounting policies that are considered important to the Company's financial condition and results, and require significant judgment and estimates on the part of management in their application. In addition, all of the Company's significant accounting policies, including the critical accounting policies, are summarized in Note 1 to the accompanying consolidated financial statements.
- *Risk factors and caution concerning forward-looking statements.* This section provides a description of risk factors that could adversely affect the operations, business or financial results of the Company or its business segments and how certain forward-looking statements made by the Company in this report, including throughout MD&A and in the consolidated financial statements, are based on management's present expectations about future events and are inherently susceptible to uncertainty and changes in circumstances.

OVERVIEW

Description of Business

AOL Time Warner is the world's leading media and entertainment company. The Company was formed in connection with the merger of America Online, Inc. ("America Online") and Time Warner Inc. ("Time Warner"), which was consummated on January 11, 2001 (the "Merger"). As a result of the Merger, America Online and Time Warner each became a wholly owned subsidiary of AOL Time Warner.

A majority of AOL Time Warner's interests in the Filmed Entertainment and Cable segments, and a portion of its interests in the Networks segment, are held through Time Warner Entertainment Company, L.P. ("TWE"). Prior to the change in ownership relating to the exercise of an option held by AT&T Corp. ("AT&T"), which is discussed below, AOL Time Warner owned general and limited partnership interests in TWE consisting of 74.49% of the pro rata priority capital ("Series A Capital") and residual equity capital

("Residual Capital"), and 100% of the junior priority capital ("Series B Capital"). The remaining 25.51% limited partnership interests in the Series A Capital and Residual Capital of TWE were held by subsidiaries of AT&T.

During the second quarter of 2002, AT&T exercised a one-time option to increase its ownership in the Series A Capital and Residual Capital of TWE. As a result, on May 31, 2002, AT&T's interest in the Series A Capital and Residual Capital of TWE increased by approximately 2.13% to approximately 27.64% and AOL Time Warner's corresponding interest in the Series A Capital and Residual Capital of TWE decreased by approximately 2.13% to approximately 72.36%. AT&T's interest in TWE was acquired by Comcast Corp. ("Comcast") upon consummation of the merger of Comcast and AT&T's broadband businesses in November 2002.

TWE classifies its business interests into three fundamental areas: *Cable,* consisting principally of interests in cable television systems; *Filmed Entertainment,* consisting principally of interests in filmed entertainment and television production; and *Networks,* consisting principally of interests in cable television and broadcast network programming. TWE also manages the cable properties wholly-owned by AOL Time Warner and the combined cable television operations are conducted under the name of Time Warner Cable.

Use of EBITDA

TWE evaluates operating performance based on several factors, including its primary financial measure of operating income (loss) before non-cash depreciation of tangible assets, amortization of intangible assets and impairment write-downs related to goodwill and intangible assets ("EBITDA"). TWE considers EBITDA an important indicator of the operational strength and performance of its businesses, including the ability to provide cash flows to service debt and fund capital expenditures. In addition, EBITDA eliminates the uneven effect across all business segments of considerable amounts of non-cash depreciation of tangible assets and amortization of certain intangible assets deemed to have finite useful lives that were recognized in business combinations accounted for by the purchase method. As such, the following comparative discussion of the results of operations of TWE includes, among other measures, an analysis of changes in business segment EBITDA. However, EBITDA should be considered in addition to, not as a substitute for, operating income (loss), net income (loss) and other measures of financial performance reported in accordance with accounting principles generally accepted in the United States. In addition, EBITDA should not be used as a substitute for the Company's cash flow measures (e.g., operating cash flow), which are discussed in detail under "Financial Condition and Liquidity."

Recent Developments

Restructuring of TWE

In August 2002, AOL Time Warner and AT&T announced that they had agreed to restructure TWE. The restructuring is expected to be completed on March 31, 2003. The TWE restructuring will result in the following: (i) AOL Time Warner will acquire complete ownership of TWE's content assets (including Warner Bros. and Home Box Office, which will become separate, wholly owned subsidiaries of the Company); (ii) all of AOL Time Warner's directly-owned cable television system interests will be contributed to a separate company which will become a majority-owned subsidiary of AOL Time Warner and will be renamed Time Warner Cable Inc. ("TWC Inc."); (iii) TWE will become a subsidiary of TWC Inc. and will continue to own the cable television system interests it previously owned; (iv) Comcast will receive $2.1 billion in cash, which the Company anticipates will be funded through a new credit facility at TWC Inc. that has not yet been established, and AOL Time Warner equity securities valued at $1.5 billion; (v) a Comcast Trust will also retain a 21% economic interest in the Company's cable business, through a 17.9% direct ownership interest in TWC Inc. (representing a 10.7% voting interest) and a limited partnership interest in TWE representing a 4.7% residual equity interest; and (vi) AOL Time Warner will retain an overall 79% economic interest in the cable business, through an 82.1% ownership interest in TWC Inc. (representing an 89.3% voting interest) and

a partnership interest in TWE representing a 1% residual equity interest and a $2.4 billion preferred component.

Based upon its 89.3% controlling voting interest in TWC Inc., AOL Time Warner will consolidate the results of TWC Inc. for accounting purposes. At the closing of the restructuring, it is anticipated that TWC Inc. will have approximately $8.1 billion in consolidated net debt and preferred equity, including the $2.4 billion preferred interest held by AOL Time Warner. Subject to market and other conditions, AOL Time Warner expects to complete an initial public offering of TWC Inc. common stock during 2003. It is anticipated that the first $2.1 billion of net proceeds raised in any such offering would be used to pay off TWC Inc. debt incurred to fund the $2.1 billion cash payment to Comcast. Thereafter, Comcast will have certain priority registration rights with respect to its stake in TWC Inc. (Note 1).

Restructuring of TWE-Advance/Newhouse and Road Runner Partnerships

Prior to August 1, 2002, the TWE-Advance/Newhouse Partnership ("TWE-A/N") was owned approximately 64.8% by TWE, the managing partner, 33.3% by the Advance/Newhouse Partnership ("Advance/Newhouse") and 1.9% indirectly by AOL Time Warner. The financial position and operating results of TWE-A/N were consolidated by TWE, and the partnership interest owned by Advance/Newhouse was reflected in the consolidated financial statements of TWE as minority interest. In addition, prior to August 1, 2002, Road Runner, a high-speed cable modem Internet service provider, was owned by TWI Cable Inc. (a wholly-owned subsidiary of AOL Time Warner), TWE and TWE-A/N, with TWE owning approximately 65% on a fully attributed basis (i.e., after considering the portion attributable to TWI Cable and Advance/Newhouse). TWE's interest in Road Runner was accounted for using the equity method of accounting because of certain approval rights held by Advance/Newhouse.

On June 24, 2002, TWE and Advance/Newhouse agreed to restructure TWE-A/N, which, on August 1, 2002 (the "Debt Closing Date"), resulted in Advance/Newhouse assuming responsibility for the day-to-day operations of certain TWE-A/N cable systems serving approximately 2.1 million subscribers located primarily in Florida (the "Advance/Newhouse Systems"). On the Debt Closing Date, Advance/Newhouse and its affiliates arranged for a new credit facility, which is independent of and not guaranteed by AOL Time Warner, to support the Advance/Newhouse Systems and assumed and repaid approximately $780 million of TWE-A/N's senior indebtedness. As a result, TWE has deconsolidated the financial position and operating results of these systems. Additionally, all prior period results associated with the Advance/Newhouse Systems, including the historical minority interest allocated to Advance/Newhouse's interest in TWE-A/N, have been reflected as a discontinued operation for all periods presented. Under the new TWE-A/N Partnership Agreement, effective as of the Debt Closing Date, Advance/Newhouse's partnership interest tracks only the economic performance of the Advance/Newhouse Systems, including associated liabilities, while TWE retains substantially all of the economic interests in the other TWE-A/N assets and liabilities. The restructuring was completed on December 31, 2002.

As part of the restructuring of TWE-A/N, on the Debt Closing Date, AOL Time Warner effectively acquired Advance/Newhouse's attributable interest in Road Runner, thereby increasing its ownership to approximately 82% on a fully attributed basis. As a result of the termination of Advance/Newhouse's minority rights in Road Runner, TWE has consolidated the financial position and results of operations of Road Runner with the financial position and results of operations of TWE's Cable segment. As permitted under generally accepted accounting principles, the Company has consolidated the results of Road Runner retroactive to the beginning of 2002.

In connection with the TWE-A/N restructuring, TWE recognized a non-cash pretax gain of approximately $1.2 billion. The gain was calculated as the difference between the fair value received in the restructuring (e.g., TWE's increased economic interest in the TWE-A/N cable systems remaining under the

management of TWE) and the carrying value surrendered (e.g. the carrying value of TWE's interest in the Advance/Newhouse Systems). In order to determine fair value, in addition to internal analysis, the Company obtained an appraisal from an independent valuation firm. The gain was mitigated because a portion of TWE's investment in TWE-A/N that related to AOL Time Warner's interests was recently adjusted to fair value as part of purchase accounting for the Merger. The gain is included as part of discontinued operations in the accompanying consolidated statement of operations for year ended December 31, 2002.

$10 Billion Revolving Credit Facilities

In July 2002, AOL Time Warner, together with certain of its consolidated subsidiaries, including TWE, entered into two new senior unsecured long-term revolving bank credit agreements with an aggregate borrowing capacity of $10 billion (the "2002 Credit Agreements") and terminated two existing bank credit facilities with an aggregate borrowing capacity of $12.5 billion (the "Old Credit Agreements"), which were scheduled to expire during 2002. The 2002 Credit Agreements are comprised of a $6 billion five-year revolving credit facility and a $4 billion 364-day revolving credit facility, borrowings under which may be extended for a period up to two years following the initial term (Note 7).

Pension Funding Liability

During the fourth quarter of 2002, the Company recorded a liability for the unfunded accumulated benefit obligation of approximately $90 million. This liability represents the excess of the accumulated benefit obligation under the Company's qualified defined benefit pension plans over the fair value of the plans' assets. In accordance with generally accepted accounting principles, this liability was established by a charge to shareholders' equity, resulting in no effect to the accompanying consolidated statement of operations. In early 2003, the Company made cash contributions to plan assets of approximately $42 million, which resulted in a funded status of approximately 75% relative to the projected benefit obligation (Note 11).

RESULTS OF OPERATIONS

Transactions Affecting Comparability of Results of Operations

Consolidation of Road Runner

In August 2002, AOL Time Warner effectively acquired Advance/Newhouse's 17% indirect ownership interest in Road Runner. As a result of the termination of Advance/Newhouse's minority rights in Road Runner, TWE has consolidated the financial position and results of operations of Road Runner with the financial position and results of operations of TWE's Cable segment. As permitted under generally accepted accounting principles, the Company has consolidated the results of Road Runner retroactive to the beginning of 2002.

Discontinued Operations

As previously discussed in "Restructuring of TWE-Advance/Newhouse and Road Runner Partnerships," the Company's results of operations have been adjusted to reflect the results of the Advance/Newhouse Systems as a discontinued operation for all periods presented herein. For 2002, for the six months ended June 30, 2002 (e.g., the most recent reported period prior to the deconsolidation), the net impact of the deconsolidation of these systems was a reduction of Cable's previously reported revenues, EBITDA and operating income of $715 million, $333 million and $206 million, respectively. For the year ended December 31, 2001, the net impact of the deconsolidation of these systems was a reduction of Cable's revenues, EBITDA and operating income of $1.247 billion, $571 million and $313 million, respectively. For the year ended December 31, 2000, the net impact of the deconsolidation of these systems was a reduction of the Cable segment's previously reported revenues, EBITDA and operating income of $1.058 billion,

$484 million and $256 million, respectively. In addition, during 2002, the Company recognized a non-cash pretax gain of $1.2 billion relating to the restructuring. As of December 31, 2001, the Advance/Newhouse Systems had current assets and total assets of approximately $64 million and $2.7 billion, respectively, and current liabilities and total liabilities of approximately $210 million and $963 million, respectively, including debt assumed on the Debt Closing Date.

New Accounting Principles

In addition to the transactions previously discussed, in the first quarter of 2002, the Company adopted new accounting guidance in several areas, which are discussed below.

New Accounting Standard for Goodwill and Other Intangible Assets

During 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets" ("FAS 142"), which requires that, effective January 1, 2002, goodwill, including the goodwill included in the carrying value of investments accounted for using the equity method of accounting, and certain other intangible assets deemed to have an indefinite useful life, cease amortizing. The new rules also require that goodwill and certain intangible assets be assessed for impairment using fair value measurement techniques. During the first quarter of 2002, the Company completed its initial impairment review and recorded a $21.763 billion non-cash charge for the impairment of goodwill, substantially all of which was generated in the Merger. The charge reflects overall market declines since the Merger was announced in January 2000, is non-operational in nature and is reflected as a cumulative effect of an accounting change in the accompanying consolidated statement of operations (Note 2).

During the fourth quarter of 2002, the Company performed its annual impairment review for goodwill and other intangible assets and recorded an additional non-cash charge of $2.355 billion, which is recorded as a component of operating income (loss) in the accompanying consolidated statement of operations. The $2.355 billion includes charges to reduce the carrying value of goodwill at the Cable segment and reflects current market conditions in the cable television industry, as evidenced by the decline in the stock prices of comparable cable television companies.

The impairment charges are non-cash in nature and do not affect the Company's liquidity or result in the non-compliance with respect to any debt covenants contained in the Company's 2002 Credit Agreements.

Reimbursement of "Out-of-Pocket" Expenses

In January 2002, the FASB Staff reached a consensus on Emerging Issues Task Force ("EITF") Issue No. 01-14, "Income Statement Characterization of Reimbursements Received for "Out-of-Pocket' Expenses Incurred" ("EITF 01-14"). EITF 01-14 requires that reimbursements received for out-of-pocket expenses be classified as revenue on the income statement. EITF 01-14 was effective for TWE in the first quarter of 2002 and required retroactive restatement of all periods presented to reflect the new accounting provisions. This change in revenue classification impacts TWE's Cable segment. As a result of applying the guidance of EITF 01-14, TWE's revenues and costs presented herein were retroactively increased by an equal amount of $196 million in 2001 and $171 million in 2000.

Significant Transactions and Other Items Affecting Comparability

As more fully described herein and in the related footnotes to the accompanying consolidated financial statements, the comparability of TWE's operating results has been affected by certain significant transactions and other items in each period.

For the year ended December 31, 2002, these items included (i) a non-cash charge of $2.355 billion to reduce the carrying value of goodwill (Note 2), (ii) non-cash charges of $363 million to reduce the carrying value of TWE's investments in certain unconsolidated cable television system joint ventures (Note 5) and (iii) a $6 million gain on the sale of consolidated cable television systems, which is reflected in the EBITDA of the Company's Cable segment (Note 13).

For the year ended December 31, 2000, these items included (i) a $50 million charge relating to the Six Flags Entertainment Corporation ("Six Flags") litigation (Note 14), (ii) a net investment-related gain of approximately $65 million, principally related to additional proceeds received in 2000 in connection with the 1999 sale of an interest in CanalSatellite, a satellite television platform servicing France and Monaco (Note 5), (iii) a charge of approximately $35 million relating to a restructuring of the Road Runner joint venture, originally formed with AT&T to operate Time Warner Cable's and AT&T's high-speed online businesses (Note 4) and (iv) a non-cash charge of approximately $524 million shown separately in the accompanying consolidated statement of operations related to the cumulative effect of an accounting change in connection with the adoption of a new film accounting standard (Note 1).

2002 vs. 2001

Revenue, EBITDA and operating income (loss) by business segment are as follows:

	Year Ended December 31,					
	Revenues		EBITDA[a]		Operating Income (Loss)	
	2002	2001[b][c]	2002	2001[c]	2002[d]	2001[c]
			(millions)			
Cable[e]	$ 5,907	$ 4,983	$ 2,333	$ 2,191	$(1,046)	$(456)
Filmed Entertainment	7,682	6,889	844	691	637	219
Networks	3,413	3,024	849	703	811	291
Corporate	—	—	(84)	(78)	(94)	(85)
Intersegment elimination	(577)	(554)	—	—	—	—
Total	$16,425	$14,342	$ 3,942	$ 3,507	$ 308	$ (31)

[a] EBITDA represents operating income (loss) before depreciation expense of $1.129 billion in 2002 and $870 million in 2001, amortization expense of $150 million in 2002 and $2.668 billion in 2001 and an impairment write-down related to goodwill of $2.355 billion in 2002.

[b] Revenues reflect the provisions of EITF 01-14 that were adopted by the Company in the first quarter of 2002, which require retroactive restatement of 2001 results to reflect the new accounting provisions. As a result, the impact of EITF 01-14 was to increase revenues and costs of the Cable segment by equal amounts of approximately $196 million for 2001.

[c] The results for 2001 do not reflect the results of significant transactions in 2002, including the consolidation of Road Runner, or the adoption of FAS 142 on January 1, 2002.

[d] During 2002, the Company recognized a $2.355 billion non-cash charge relating to the impairment of goodwill at the Cable segment, which is recorded as a component of operating income (Note 1).

[e] As a result of Advance/Newhouse assuming responsibility for the day-to-day operations of the Advance/Newhouse Systems in 2002, the Cable segment's results reflect the deconsolidation of the operating results of the Advance/Newhouse Systems for all periods presented. For 2002, for the six months ended June 30, 2002 (e.g., the most recent reported period prior to the deconsolidation), the net impact of the deconsolidation of these systems was a reduction of the Cable segment's previously reported revenues, EBITDA and operating income of $715 million, $333 million and $206 million, respectively. For 2001, the net impact of the deconsolidation of these systems was a reduction of the Cable segment's revenues, EBITDA and operating income of $1.247 billion, $571 million and $313 million, respectively. In addition, the Cable segment's EBITDA for 2002 includes a $6 million gain on the sale of consolidated cable television systems.

Consolidated Results

Revenues. Revenues increased to $16.425 billion in 2002, compared to $14.342 billion in 2001. The overall increase in revenues was driven by an increase in Subscription revenues of 15% to $7.554 billion and an

increase in Content and Other revenues of 17% to $7.676 billion. Advertising and Commerce revenues of $1.195 billion in 2002 were relatively flat.

As discussed more fully below, the increase in Subscription revenues was principally due to increases in the number of subscribers and in subscription rates at the Cable and Networks segments, as well as the consolidation of Road Runner. The increase in Content and Other revenues was principally due to increased revenue at the Filmed Entertainment segment related to improved international theatrical and worldwide home video results. The flat Advertising and Commerce revenues reflected an increase in advertising at the Networks and Cable segments, offset by a decrease in commerce revenues at the Filmed Entertainment segment, due to the closure of the Filmed Entertainment Studio Stores.

Intersegment Revenues. TWE's intersegment revenues increased to $577 million in 2002 compared to $554 million in 2001. Intersegment revenues principally reflected film and television product sold by the Filmed Entertainment segment to the Networks segment and the sale of programming by the Networks segment to the Cable segment. Since intersegment revenues are eliminated in consolidation, they do not impact the Company's consolidated results.

EBITDA. TWE's EBITDA increased to $3.942 billion in 2002 from $3.507 billion in 2001. The increase was principally a result of an increase in EBITDA at the Company's business segments, which is discussed in detail under "Business Segment Results," offset in part by an increase in corporate expenses.

Depreciation Expense. Depreciation expense increased to $1.129 billion in 2002 from $870 million in 2001 principally due to increases at the Cable segment ($1.018 billion in 2002 compared to $747 million in 2001). The increase in depreciation expense at the Cable segment reflects higher levels of capital spending related to the roll-out of digital services over the past three years resulting in increased capital spending on customer premise equipment, which is depreciated over a shorter useful life.

Amortization Expense. Amortization expense decreased to $150 million in 2002 from $2.668 billion in 2001. The amortization expense in 2001 primarily reflected amortization of goodwill and other intangible assets recorded in the Merger. The decrease in amortization expense in 2002 was due to the adoption of FAS 142, which resulted in goodwill and certain intangible assets ceasing to be amortized.

Operating Income (Loss). TWE's operating income was $308 million in 2002 compared to an operating loss of $31 million in 2001. The improvement in operating income related to a decrease in amortization expense, due to the adoption of FAS 142, and an increase in business segment EBITDA, which is discussed in detail under "Business Segment Results," offset in part by a non-cash charge of $2.355 billion to reduce the carrying value of goodwill, as well as an increase in depreciation expense.

Interest Expense, Net. Interest expense, net, decreased to $401 million in 2002, from $530 million in 2001, due principally to lower market interest rates and lower average debt outstanding in 2002.

Other Expense, Net. Other expense, net, increased to $357 million in 2002 from $346 million in 2001, principally due to pretax charges of $363 million to reduce the carrying value of TWE's investments in certain unconsolidated cable television joint ventures (Note 5) and the absence in 2002 of gains on the sale of unconsolidated cable systems, offset by a reduction of losses from equity method investees, primarily related to reduced amortization associated with the adoption of FAS 142.

Depending upon general market conditions and the performance of individual investments in the TWE's portfolio, the Company may be required in the future to record additional non-cash charges to reduce the carrying value of individual investments to their fair value for other-than-temporary declines. Any such charges would be unrelated to the Company's core operations and would be recorded in other expense, net (Note 5). Excluding equity method investees, as of December 31, 2002, the fair value and carrying value of the Company's portfolio were $158 million and $155 million, respectively.

Minority Interest Income (Expense). AOL Time Warner had $28 million of minority interest expense in 2002, compared to $36 million of minority interest income in 2001. Minority interest expense in 2002 primarily reflects the adoption of FAS 142, which resulted in a reduction of amortization expense at the Company's partially owned consolidated investees, thereby resulting in an increase in the minority interest expense, as more income is attributable to minority partners.

Income Tax Provision. As a U.S. partnership, TWE is generally not subject to U.S. federal and state income taxation. Income and withholding taxes of $157 million in 2002 and $127 million in 2001, have been provided for the operations of TWE's domestic and foreign subsidiary corporations.

Net Loss. TWE's net loss increased to $21.219 billion in 2002 compared to $1.032 billion in 2001. The 2002 results reflect the $21.763 billion cumulative effect of an accounting change, $1.179 billion gain on discontinued operations and $2.355 billion charge to reduce the carrying value of goodwill. In addition to the impact of these items, TWE's 2002 results benefited from a reduction in amortization expense, due to the adoption of FAS 142, and an increase in EBITDA, offset in part by an increase in depreciation expense.

Business Segment Results

Cable. Revenues increased 19% to $5.907 billion in 2002 compared to $4.983 billion in 2001. EBITDA increased 6% to $2.333 billion in 2002 from $2.191 billion in 2001. Operating loss was $1.046 billion in 2002 compared to $456 million in 2001.

Revenues increased due to a 18% increase in Subscription revenues (from $4.530 billion to $5.348 billion) and a 23% increase in Advertising and Commerce revenues (from $453 million to $559 million). The increase in Subscription revenues was due to higher basic cable rates and increases in high-speed data services subscribers, digital cable subscribers and basic cable subscribers, as well as the impact of the consolidation of Road Runner in 2002. In 2002, high-speed data subscribers managed by TWE increased by 63% to 2.509 million, digital cable subscribers managed by TWE increased by 36% to 3.747 million and basic cable subscribers increased by 1.3% to 10.914 million. In addition, total customer relationships, representing the number of customers managed by TWE that receive at least one level of service, increased by 3% to approximately 11.2 million as of December 31, 2002 compared to approximately 10.9 million as of December 31, 2001 and revenue generating units, representing the total of all analog video, digital video, high-speed data and telephony customers, increased by 14% to approximately 17.2 million in 2002 compared to approximately 15.0 million in 2001. The Company's subscriber amounts include subscribers at both consolidated entities and investees accounted for under the equity method of accounting, which are managed by the Company. High speed data subscribers include residential subscribers, as well as commercial and bulk (e.g., apartment buildings and universities) subscribers. As of December 31, 2002, there were 2.426 million residential and bulk subscribers, and 83 thousand commercial subscribers. Due to their nature, commercial and bulk subscribers are charged at different amounts than residential subscribers. If the number of commercial and bulk high-speed data subscribers was equivalized (e.g., calculated by dividing commercial and bulk high-speed data revenue by the average rate charged to residential customers) the Company's total high-speed data subscribers would have increased 65% to 2.613 million.

The increase in Advertising and Commerce revenues was primarily related to an increase in the intercompany sale of advertising to non-TWE business segments of AOL Time Warner (from $37 million to $107 million), an increase in advertising purchased by programming vendors to promote their channels, including new channel launches (from $87 million to $102 million) and a 6% increase in general third-party advertising revenues. The Company expects intercompany advertising revenue to be minimal in 2003. The Company also expects advertising purchased by programming vendors to decline by more than 70% in 2003 primarily due to fewer new channel launches.

EBITDA increased principally as a result of the revenue gains as well as a $6 million gain on the sale of consolidated cable systems, offset in part by increases in programming and other operating costs and the consolidation of Road Runner in 2002. The increase in video programming costs of over 20% relates to general programming rate increases across both basic and digital services, the addition of new programming services and higher basic and digital subscriber levels. Video programming costs have risen in recent years and will continue to rise, although at a lower rate than during 2002, primarily due to the expiration of introductory and promotional periods under programming affiliation agreements, the need to procure additional quality programming for more extensive programming packages, the migration of premium channels to the standard tier, industry-wide programming cost increases (especially for sports programming) and inflation-indexed or negotiated license fees increases. Other operating costs increased as a result of the roll out of new services and higher property taxes associated with the upgrade of cable plants. The increase in operating loss was due to the $2.355 billion goodwill impairment charge and the increase in depreciation expense, offset in part by an increase in EBITDA and a decrease in amortization expense, due to the adoption of FAS 142. The Company anticipates that EBITDA and operating income of the Cable segment in 2003 will be negatively impacted by an approximate $18 million increase in pension expense.

Filmed Entertainment. Revenues increased 12% to $7.682 billion in 2002, compared to $6.889 billion in 2001. EBITDA increased 22% to $844 million in 2002, compared to $691 million in 2001. Operating income increased to $637 million in 2002, compared to $219 million in 2001.

The increase in revenue was primarily related to improved worldwide home video and international theatrical results, offset in part by declines in television and reduced commerce revenues related to the closure of its Studio Stores in 2001. The improved results reflect the worldwide theatrical success of *Harry Potter and the Chamber of Secrets,* as well as the worldwide home video and international theatrical results of *Harry Potter and the Sorcerer's Stone, Ocean's Eleven* and *Scooby Doo: The Movie.*

EBITDA increased primarily due to the revenue increases, offset in part by higher theatrical film costs, including higher advertising and distribution costs. Operating income increased primarily due to the EBITDA increases and a decrease in amortization expense due to the adoption of FAS 142.

Networks. Revenues increased 13% to $3.413 billion in 2002, compared to $3.024 billion in 2001. EBITDA increased 21% to $849 million in 2002 from $703 million in 2001. Operating income increased to $811 million, compared to $291 million in 2001.

Revenues grew primarily due to an increase in Subscription revenues at HBO, an increase in Advertising and Commerce revenues at The WB Network and an increase in Content and Other revenues at HBO. EBITDA and operating income increased due to improved results at HBO and The WB Network.

For HBO, Subscription revenues benefited from an increase in the number of subscribers and higher rates. Content and Other revenues benefited from higher home video sales of HBO's original programming and higher licensing and syndication revenue from the broadcast comedy series *Everybody Loves Raymond.* For The WB Network, the increase in Advertising and Commerce revenues was driven by higher advertising rates.

For HBO, the increase in EBITDA was principally due to the increase in revenues and reduced costs relating to the finalization of certain licensing agreements, offset in part by an allowance for doubtful accounts established on receivables from Adelphia Communications, a major cable television operator, higher write-offs of development costs and increased programming costs. For The WB Network, the EBITDA increase was principally due to higher Advertising and Commerce revenues, offset in part by higher program license fees.

For HBO and The WB Network, the increase in operating income was primarily due to an increase in EBITDA and a decrease in amortization expense, due to the adoption of FAS 142.

2001 vs. 2000

Revenue, EBITDA and Operating income (loss) by business segment are as follows:

	Year Ended December 31					
	Revenues		EBITDA[a]		Operating Income (Loss)	
	2001[b]	2000[b]	2001	2000	2001	2000
			(millions)			
Cable[c]	$ 4,983	$ 4,314	$2,191	$1,960	$(456)	$ 951
Filmed Entertainment	6,889	6,609	691	585	219	378
Networks	3,024	2,723	703	512	291	474
Corporate	—	—	(78)	(75)	(85)	(81)
Intersegment elimination	(554)	(468)	—	—	—	—
Total	$14,342	$13,178	$3,507	$2,982	$ (31)	$1,722

[a] EBITDA represents operating income (loss) before depreciation expense of $870 million in 2001 and $757 million in 2000 and amortization expense of $2.668 billion in 2001 and $503 million in 2000.

[b] Revenues reflect the provisions of EITF 01-14 that were adopted by the Company in the first quarter of 2002, which require retroactive restatement of 2001 and 2000 results to reflect the new accounting provisions. As a result, the impact of EITF 01-14 was to increase revenues and costs by equal amounts of $196 million in 2001 and $171 million in 2000.

[c] As a result of Advance/Newhouse assuming responsibility for the day-to-day operations of the Advance/Newhouse systems in 2002, the Cable segment's results reflect the deconsolidation of the operating results of the Advance/Newhouse Systems for all periods presented. For 2001, the net impact of the deconsolidation of these systems was a reduction of the Cable segment's reported revenues, EBITDA and operating income of $1.247 billion, $571 million and $313 million, respectively. For 2000, the net impact of the deconsolidation of these systems was a reduction of the Cable segment's previously reported revenues, EBITDA and operating income of $1.058 billion, $484 million and $256 million, respectively.

Consolidated Results

Revenues. TWE's revenues increased to $14.342 billion in 2001 compared to $13.178 billion in 2000. This overall increase in revenues was driven by an increase in subscription revenues of 12% to $6.591 billion, an increase in content and other revenues of 7% to $6.563 billion, and an increase in advertising and commerce revenues of 4% to $1.188 billion.

As discussed more fully below, the increase in Subscription revenues was principally due to an increase in the number of subscribers and subscription rates at the Cable and Networks segments. The increase in Advertising and Commerce revenues was principally due to the increased advertising at the Cable segment and The WB Network, partially offset by lower Commerce revenues due to the absence of revenues from the Filmed Entertainment Studio Stores operations, which the Company closed in 2001. The increase in Content and Other revenues was principally due to increased revenues at the Filmed Entertainment segment related to the theatrical successes of *Harry Potter and the Sorcerer's Stone, Ocean's Eleven* and *Cats & Dogs*.

EBITDA. TWE's EBITDA increased to $3.507 billion in 2001 from $2.982 billion in 2000. The increase was principally a result of an increase in EBITDA at the Company's business segments, which is discussed in detail under "Business Segment Results", offset in part by a slight increase in corporate expenses.

Intersegment Revenues. TWE's intersegment revenues increased to $554 million in 2001 compared to $468 million in 2000. Intersegment revenues principally reflected film and television product sold by the Filmed Entertainment segment to the Network's segment and the sale of programming by the Network's segment to the Cable segment. Since Intersegment revenues are eliminated in consolidation, they do not impact the Company's consolidated results.

Depreciation Expense. Depreciation expense increased to $870 million in 2001 from $757 million in 2000. The increase in depreciation expense of $113 million primarily relates to an increase at the Cable segment due

to higher levels of capital spending related to the rollout of digital services over the last several years and increased capital spending on equipment that varies with the number of new subscribers and is depreciated over a shorter life.

Amortization Expense. Amortization expense increased to $2.668 billion in 2001 from $503 million in 2000. The increase in amortization expense primarily relates to goodwill and other intangible assets recorded in the Merger.

Operating Income (Loss). TWE's operating loss was $31 million in 2001, compared to operating income of $1.722 billion in 2000. The decrease primarily related to an increase in both depreciation and amortization expense, which is discussed above, offset in part by an increase in EBITDA.

Interest Expense, Net. Interest expense, net, decreased to $530 million in 2001, from $612 million in 2000, principally due to lower market interest rates in 2001.

Other Expense, Net. Other expense, net, increased to $346 million in 2001 from $228 million in 2000 due primarily to higher losses from equity method investees, related to the amortization of goodwill included in the carrying value of such investments, which resulted from the Merger, offset in part by gains on the sale of unconsolidated cable television systems in 2001.

Minority Interest Income. Minority interest income decreased to $36 million in 2001, compared to $82 million in 2000. Minority interest income decreased principally due to the higher allocation of losses in 2000 to a minority partner in The WB Network.

Income Tax Provision. As a U.S. partnership, TWE is generally not subject to U.S. federal and state income taxation. Income and withholding taxes of $127 million in 2001 and $157 million in 2000 have been provided for the operations of TWE's domestic and foreign subsidiary corporations.

Net Income (Loss). TWE's net loss was $1.032 billion in 2001, compared to net income of $229 million in 2000. The decrease was primarily due to higher depreciation and amortization expense, offset in part by an increase in business segment EBITDA and the absence in 2001 of the cumulative effect of an accounting change recognized in 2000.

Business Segment Results

Cable. Revenues increased to $4.983 billion in 2001, compared to $4.314 billion in 2000. EBITDA increased to $2.191 billion in 2001 from $1.960 billion in 2000. Operating loss was $456 million in 2001, compared to operating income of $951 million in 2000.

Revenues increased due to a 14% increase in Subscription revenues (from $3.975 billion to $4.530 billion) and a 34% increase in Advertising and Commerce revenues (from $339 million to $453 million). The increase in Subscription revenues was due to higher basic cable rates, an increase in subscribers to high-speed online services, an increase in digital cable subscribers and to a lesser degree a marginal increase in basic cable subscribers. The increase in Advertising and Commerce revenues was primarily related to advertising purchased by programming vendors to promote their channel launches, the sale of advertising to other non-TWE business segments of AOL Time Warner and a general increase in advertising sales.

EBITDA increased principally as a result of the revenue gains and improved margins related to the high-speed online services, offset in part by a greater than 20% increase in programming costs related to general programming rate increases across both the basic and digital services and the roll-out of digital services, including the addition of new channels that are available only in the digital service. The decrease in operating income primarily relates to an increase in depreciation and amortization expense, offset in part by an increase in EBITDA.

Filmed Entertainment. Revenues increased to $6.889 billion in 2001, compared to $6.609 billion in 2000. EBITDA increased to $691 million in 2001 from $585 million in 2000. Operating income decreased to $219 million in 2001, compared to $378 million in 2000.

Revenues increased related to the theatrical successes of *Harry Potter and the Sorcerer's Stone, Ocean's Eleven* and *Cats & Dogs*. Revenues also benefited from the increased domestic distribution of theatrical product, principally due to higher DVD sales, and syndication revenues to broadcast *Friends*. This benefit was offset in part by lower revenues in Warner Bros.' retail operations, related to the closure of its Studio Stores. EBITDA increased principally due to the increased revenues, reduced losses from the closure of the Studio Store operations and reduced expenses for online development, offset in part by higher film costs, including higher advertising and distribution costs, because of an increase in the performance, number and timing of new theatrical releases in comparison to the prior year. Operating income decreased principally due to an increase in amortization expense, offset in part by an increase in EBITDA.

Networks. Revenues increased to $3.024 billion in 2001, compared to $2.723 billion in 2000. EBITDA increased to $703 million in 2001 from $512 million in 2000. Operating income decreased to $291 million in 2001, compared to $474 million in 2000.

Revenues grew primarily due to an increase in Subscription revenues and an increase in Content and Other revenues at HBO and an increase in Advertising and Commerce revenues at The WB Network. For HBO, Subscription revenues benefited from an increase in the number of subscribers and higher rates. Content and Other revenues benefited from higher home video sales of HBO's original programming. For The WB Network, the increase in Advertising and Commerce revenues was driven by increased advertising rates and ratings in key demographic groups. For HBO, the increase in EBITDA was principally due to the increase in revenues and increased cost savings from HBO's overhead cost management program. For The WB Network, the EBITDA improvement was principally due to the increase in Advertising and Commerce revenues. Operating income decreased principally due to an increase in amortization expense, offset in part by an increase in EBITDA.

FINANCIAL CONDITION AND LIQUIDITY

December 31, 2002

Current Financial Condition

At December 31, 2002, TWE had approximately $7.0 billion of debt, $1.0 billion of cash and equivalents (net debt of approximately $6.0 billion, defined as total debt less equivalents) and $37.1 billion of partners' capital. This compares to approximately $8.1 billion of debt, $250 million of cash and equivalents (net debt of approximately $7.8 billion) and $65.4 billion of partners' capital at December 31, 2001.

In January 2003, pursuant to a previously negotiated agreement and as previously disclosed, TWE acquired an additional 11% interest in The WB Network from certain executives of The WB Network, for $128 million in cash. The Company also made cash contributions to its defined benefit pension plan of $42 million in January 2003.

As discussed in more detail below, management believes that TWE's operating cash flow, cash and equivalents, borrowing capacity under its credit agreements, including agreements with AOL Time Warner and availability under its commercial paper program, are sufficient to fund its capital and liquidity needs for the foreseeable future.

Cash Flows

Operating Activities

TWE's cash provided by operating activities amounted to $4.012 billion in 2002 compared to $2.585 billion in 2001. The growth in cash flows from operations related to a $829 million improvement in working capital, an increase of $435 million in EBITDA and a reduction in both taxes and interest paid. The improvements in working capital are related to reduced working capital needs in the current period compared to increased working capital needs in the prior period. Working capital needs are subject to wide fluctuations based on the timing of cash transactions related to production schedules, the acquisition of programming, collection of sales proceeds and other similar items. The current period benefits may reverse in future periods.

Cash provided by operations of $4.012 billion in 2002 reflected $3.942 billion of EBITDA, less $381 million of net interest payments and $153 million of net taxes paid. Cash flow from operations also reflects a reduction in other working capital requirements of $604 million.

Cash provided by operations of $2.585 billion in 2001 reflected $3.507 billion of EBITDA, less $527 million of net interest payments and $170 million of net taxes paid. Cash flow from operations also reflects an increase in other working capital requirements of $225 million.

Investing Activities

Cash used by investing activities was $2.107 billion in 2002, compared to $2.908 billion 2001. The decrease principally resulted from a decrease in cash used for acquisitions and investments, primarily related to reduced cash payments made in connection with funding of equity method investments.

Cash used by investing activities of $2.107 billion in 2002 reflected $297 million of cash used for acquisitions and investments and $1.895 billion of total capital expenditures, offset in part by $85 million of proceeds received from the sale of investments.

Cash used by investing activities of $2.908 billion in 2001 reflected $931 million of cash used for acquisitions and investments and $2.012 billion of total capital expenditures, offset in part by $35 million of proceeds received from the sale of investments.

Financing Activities

Cash used by financing activities was $1.143 billion in 2002, compared to cash provided by financing activities of $267 million in 2001. The increase in cash used in financing activities in 2002 primarily resulted from net payments made on borrowings in 2002, compared to net borrowings in 2001, and an increase in total distributions.

Cash used by financing activities was $1.143 billion in 2002 primarily reflected net incremental debt repayments of $589 million and $538 million of total capital and other distributions.

Cash provided by financing activities of $267 million in 2001 primarily reflected net incremental borrowings of $685 million and $418 million of capital and other distributions.

Capital Expenditures

TWE's overall capital spending for 2002 was $1.895 billion, a decrease of $117 million from capital spending in 2001 of $2.012 billion. Capital expenditures from continuing operations were $1.689 billion in 2002 compared to $1.604 billion in 2001. TWE's total capital spending and the increase in capital spending from continuing operations is due principally to the Cable segment. Over the past three years, the Cable segment has been engaged in a plan to upgrade the technological capability and reliability of its cable

television systems and develop new services, which management believes will position the business for sustained, long-term growth. Capital spending by the Cable segment from continuing operations was $1.555 billion in 2002, compared to $1.467 billion in 2001. The Company has essentially completed such upgrades and therefore anticipates a decrease in capital expenditures at the Cable segment in 2003.

$10 Billion Revolving Credit Facilities

In July 2002, AOL Time Warner, together with certain of its consolidated subsidiaries, entered into two new senior unsecured long-term revolving bank credit agreements with an aggregate borrowing capacity of $10 billion (the "2002 Credit Agreements") and terminated two existing bank credit facilities with an aggregate borrowing capacity of $12.5 billion (the "Old Credit Agreements"), which were scheduled to expire during 2002. The 2002 Credit Agreements are comprised of a $6 billion five-year revolving credit facility and a $4 billion 364-day revolving credit facility, borrowings under which may be extended for a period up to two years following the initial term. The borrowers under the 2002 Credit Agreements are AOL Time Warner, TWE, TWE-A/N and AOL Time Warner Finance Ireland. The obligations of each of AOL Time Warner and AOL Time Warner Finance Ireland are guaranteed by America Online, Time Warner, Turner Broadcasting System, Inc. ("TBS") and Time Warner Companies, Inc. ("TW Companies"), directly or indirectly. The obligation of AOL Time Warner Finance Ireland is guaranteed by AOL Time Warner. Borrowings bear interest at specific rates, generally based on the credit rating for each of the borrowers, which is currently equal to LIBOR plus .625%, including facility fees of .10% and .125% on the total commitments of the 364-day and five-year facilities, respectively. In addition, the Company is required to pay an additional usage fee of .0625% if the two facilities in the aggregate have more than 33% outstanding and .125% if the facilities have more than 66% outstanding. The 2002 Credit Agreements provide same-day funding, multi-currency capability and letter of credit availability. They contain a maximum leverage ratio covenant of 5.0 times for each of TWE and TWE-A/N, but do not contain any credit ratings-based defaults or covenants, nor an ongoing covenant or representation specifically relating to a material adverse change in the Company's financial condition or results of operations. Borrowings may be used for general business purposes and unused credit is available to support commercial paper borrowings. As of December 31, 2002, $1.458 billion was outstanding under these facilities. As of December 31, 2001, $2.290 billion was outstanding under the Old Credit Agreements.

In January 2003, the Company received unanimous approval to amend its 2002 Credit Agreements, effective upon closing of the TWE restructuring. The amendments will (i) replace the $50 billion net worth covenant in each of the credit facilities within the 2002 Credit Agreements with an interest coverage covenant of 2.0 times cash interest expense, (ii) remove TWE-A/N as a borrower under all the credit facilities and TWE as a borrower under the five-year revolving credit facility and (iii) divide the $4 billion 364-day revolving credit facility into a separate $2.5 billion revolving credit facility for AOL Time Warner and AOL Time Warner Finance Ireland and a $1.5 billion revolving credit facility for TWE (and TWC Inc. following any initial public offering of its stock or registered public issuance of its debt). Other terms of the 364-day credit facility were amended to reflect this bifurcation and the stand-alone nature of the $1.5 billion TWE credit facility. As part of the same consent, the maturity of the $1.5 billion TWE credit facility was extended from July 7, 2003 to January 7, 2004, while the length of the optional extension period was reduced from two years to one year.

Outstanding Debt and Other Financing Arrangements

Outstanding Debt and Available Financial Capacity

At December 31, 2002, TWE had total committed capacity, defined as maximum available borrowings under existing debt arrangements and cash and short-term investments, of $16.298 billion. Of this committed capacity, $6.645 billion was available to fund future contractual obligations and approximately $6.955 billion

was outstanding as debt (Note 7). At December 31, 2002, total committed capacity, unused capacity and outstanding debt were as follows:

	Committed Capacity	Unused Capacity	Outstanding Debt
		(millions)	
Bank credit agreement and commercial paper programs[a]	$10,801	$6,645	$1,458
Fixed-rate public debt	3,394	—	3,394
Due to AOL Time Warner	2,084	—	2,084
Other fixed-rate obligations[b]	19	—	19
Total	$16,298	$6,645	$6,955

[a] A portion of bank credit agreement and commercial paper program's committed capacity can be used by non-TWE, AOL Time Warner segments. At December 31, 2002, $2.7 billion of committed capacity was used by non-TWE segments. Committed capacity and unused capacity also includes cash and short-term investments of approximately $1 billion less $211 million of outstanding letters of credit.

[b] Includes debt due within one year of $8 million.

Other Financing Arrangements

From time to time, TWE enters into various other financing arrangements with special purpose entities ("SPEs"). These arrangements include facilities which provide for the accelerated receipt of cash on certain accounts receivable and backlog licensing contracts. TWE employs these arrangements because they provide a cost-efficient form of financing, as well as an added level of diversification of funding sources. TWE is able to realize cost efficiencies under these arrangements since the assets securing the financing are held by a legally separate, bankruptcy-remote SPE, and provides direct security for the funding being provided. These facilities generally have relatively short-term maturities (1 to 5 years), which is taken into account in determining the maximum efficiency for the Company's overall capital structure. The Company's maturity profile of its outstanding debt and other financing arrangements is relatively long-term, with a weighted average maturity of approximately 10 years. The assets and financing associated with these arrangements generally qualify for off-balance sheet treatment (Note 7).

The following table summarizes the Company's financing arrangements with SPEs at December 31, 2002:

	Committed Capacity	Unused Capacity	Outstanding Utilization
		(millions)	
Accounts receivable securitization facilities[a]	$450	$ —	$450
Backlog securitization facility[b]	500	—	500
Total other financing arrangements	$950	$ —	$950

[a] Ability to use accounts receivable securitization facilities and backlog securitization facility depends on availability of qualified assets.

[b] The outstanding utilization on the backlog securitization facility is classified as deferred revenue on the accompanying consolidated balance sheet.

In January 2003, the FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"), which requires variable interest entities (commonly referred to as SPE's) be consolidated by the primary beneficiary of the entity if certain criteria are met. FIN 46 is effective immediately for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 become effective for the Company during the third quarter of 2003. The Company anticipates that the adoption of FIN 46 will not result in a material impact to TWE.