included in equity in pretax income (loss) of TWE, in the accompanying consolidated statement of operations. The impairment charges are non-cash in nature and do not affect the General Partners' liquidity.

Reimbursement of "Out-of-Pocket" Expenses

In January 2002, the FASB's Emerging Issues Task Force ("EITF") reached a consensus on EITF 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 the General Partners 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 WCI. As a result of applying the guidance of EITF 01-14, WCI's revenues and costs presented herein were increased by an equal amount of $152 million in 2001 and $155 million in 2000.

Emerging Issues Task Force Issue No. 01-09

In April 2001, the EITF reached a final consensus on EITF Issue No. 00-25, "Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor's Products," which was later codified along with other similar issues, into EITF 01-09, "Accounting for Consideration Given by a Vendor to a Customer or a Reseller of the Vendor's Products" ("EITF 01-09"). EITF 01-09 was effective for the General Partners in the first quarter of 2002 and requires retroactive restatement of all periods presented to reflect the new accounting provisions. EITF 01-09 clarifies the income statement classification of costs incurred by a vendor in connection with the reseller's purchase or promotion of the vendor's products, resulting in certain cooperative advertising and product placement costs previously classified as selling expenses being reflected as a reduction of revenues. This change in revenue classification impacts WCI. As a result of applying the provisions of EITF 01-09, WCI's revenues and costs presented herein were reduced by an equal amount of $45 million in 2001 and $35 million in 2000.

Significant Transactions and Other Items Affecting Comparability

As more fully described herein and in the related footnotes, the comparability of WCI's and ATC's operating results has been affected by significant transactions and other items in each period.

For the year ended December 31, 2002, these items included (i) merger and restructuring costs of approximately $8 million at WCI (Note 4), (ii) a non-cash charge of $1.499 billion to reduce the carrying value of goodwill and other intangible assets at WCI, which is included as a component of operating income (loss) and excludes a $1.572 billion charge representing WCI's share of TWE's goodwill and other intangible assets impairment (Note 3), (iii) non-cash pretax charges of approximately $446 million at WCI and approximately $244 million at ATC to reduce the carrying value of certain investments that experienced other-than-temporary declines in market value, including non-cash pretax charges of approximately $356 million at WCI and $244 million at ATC to reduce the carrying value of their respective investments in Time Warner Telecom, an equity investee (Note 7), and (iv) an approximate $97 million gain in the second quarter on the sale of a portion of WCI's interest in Columbia House (Note 7).

For the year ended December 31, 2001, these items included (i) merger and restructuring costs of approximately $37 million at WCI (Note 4) and (ii) non-cash pretax charges of approximately $676 million at WCI and $372 million at ATC to reduce the carrying value of certain investments that experienced other-than-temporary declines in market value, including non-cash pretax charges of approximately $542 million at WCI and $372 million at ATC to reduce the carrying value of their respective investments in Time Warner Telecom, an equity investee (Note 7).

For the year ended December 31, 2000, these items included (i) merger and restructuring costs of approximately $18 million (Note 4), (ii) a non-cash pretax charge of approximately $115 million to reduce the carrying value of WCI's investment in the Columbia House (Note 7) and (iii) a non-cash pretax charge of $337 million for WCI and $227 million for ATC related to the cumulative effect of an accounting change in connection with the adoption of a new film accounting standard.

Set forth below is a discussion of the results of operations and financial condition of WCI, the only General Partner with independent business operations.

2002 vs. 2001

Revenues. WCI's revenues increased to $4.205 billion in 2002, compared to $4.036 billion in 2001. Revenues increased primarily due to the impact of the acquisition of Word Entertainment in January 2002, lower provisions for returns due to improved experience, increases in DVD manufacturing volume, and the positive effect of changes in foreign currency exchange rates on international revenues, offset in part by the ongoing weakness in the worldwide music industry and lower DVD manufacturing prices. Industry-wide worldwide music sales continue to be negatively impacted by the effects of piracy, which is expected to continue in the future. In addition, downward pressure on DVD manufacturing pricing could negatively affect future manufacturing revenues and profits. As of December 31, 2002, WCI's music operations had year-to-date domestic album market share of 17.0%, compared to 16.8% at December 31, 2001.

EBITDA. WCI's EBITDA increased to $471 million in 2002 from $382 million in 2001. The improvement in EBITDA is due primarily to higher revenues, the impact of various cost-saving and restructuring programs and lower marketing and bad debt expense, partially offset by higher artist and repertoire costs.

Amortization Expense. WCI's amortization expense decreased to $175 million in 2002 from $836 million 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, offset in part by the amortization of finite lived intangibles acquired as part of the purchase of Word Entertainment in January 2002. In the first quarter of 2003 the Company reassessed the useful life of its music publishing copyrights and record catalog and concluded that such lives should be decreased from 20 years to 15. The impact of this change is expected to increase amortization expense by approximately $50 million per year.

Operating Loss. WCI's operating loss increased to $1.325 billion in 2002 compared to $551 million in 2001. The increase in operating loss is due primarily to a $1.499 billion goodwill and other intangible asset impairment charge, offset in part by an increase in EBITDA and a decrease in amortization expense due to the adoption of FAS 142.

Equity in the Pretax Income (Loss) of TWE. WCI's equity in the pretax income (loss) of TWE was $(427) million in 2002, compared to $(969) million in 2001. TWE's pretax loss decreased in 2002 as compared to 2001 principally due to a decrease in amortization expense due to the adoption of FAS 142, and an increase in EBITDA, 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. WCI's equity in the pretax income (loss) of TWE also includes a charge of $1.572 billion representing WCI's share of TWE's goodwill and other intangible assets impairment charge.

Interest Expense, Net. WCI's interest expense, net, was $59 million in 2002 compared to $25 million in 2001. The increase was principally the result of a loan received from AOL Time Warner in conjunction with the purchase of IPC Group Limited.

Other Income (Expense), Net. WCI's other income (expense), net was $(308) million in 2002, compared to $(1.088) billion in 2001. The decrease was principally due to lower losses from certain investments accounted for under the equity method of accounting and a decrease in losses related to investment write-downs.

Income Tax (Expense) Benefit. The relationship between income before income taxes and income tax expense for the General Partners is principally affected by the amortization of goodwill and certain other financial statement expenses that are not deductible for income tax purposes. Income tax expense for each of the General Partners includes all income taxes related to its allocable share of partnership income of TWE.

Net Income (Loss). WCI's net loss increased to $21.001 billion in 2002 from $2.259 billion in 2001 due to the cumulative effect of adopting FAS 142 of $18.962 billion and a $1.499 billion goodwill and intangibles impairment charge, offset in part by a decrease in the amortization of intangibles as a result of the adoption of FAS 142.

2001 vs. 2000

Revenues. WCI had revenues of $4.036 billion compared to revenues of $4.268 billion in 2000. Revenues decreased primarily due to the negative effect of changes in foreign currency exchange rates on international music operations and lower industry-wide recorded music sales. Despite the industry-wide sales decline, WCI's music operations increased its domestic market share to 16.8%, coming in second place for the year in total industry sales.

EBITDA. WCI's EBITDA decreased to $382 million from $512 million. The decrease in EBITDA principally related to the reduction in revenues, higher marketing costs, including the cost of promoting new artists, higher provisions for bad debts, reflecting the difficult industry-wide retail environment and higher merger-related costs. This was offset in part by higher income from DVD manufacturing operations and lower artist royalty costs driven by the lower revenues.

Amortization Expense. WCI's amortization expense increased to $836 million in 2001 from $241 million in 2000 as a result of goodwill and other intangible assets recorded in 2001 in connection with the Merger.

Operating Income (Loss). WCI had operating income (loss) of $(551) million in 2001 compared to $188 million in 2000. The decline in operating income was principally related the amortization of goodwill and other intangible assets recorded in connection with the Merger.

Equity in the Pretax Income (Loss) of TWE. WCI's equity in the pretax income (loss) of TWE was $(969) million in 2001, compared to $539 million in 2000. TWE's pretax income decreased in 2001 as compared to 2000 principally due to the impact of the Merger and the application of the purchase method of accounting, which resulted in increased amortization of goodwill and other intangible assets recorded in connection with the Merger, including the amortization of goodwill included in the carrying value of investments accounted for under the equity method of accounting, which is recorded in TWE's other expense, net.

Interest Expense, Net. WCI's interest expense, net, was $25 million in 2001 compared to $3 million in 2000. The increase was principally the result of the recognition of the accretion of interest associated with a long-term liability for artist contracts, which was established as a result of the Merger and the application of the purchase method of accounting.

Other Income (Expense), Net. WCI's other income (expense), net, was $(1.088) billion in 2001, compared to $(188) million in 2000. The increase was principally due to an increase in losses related to investment write-downs and higher losses from certain investments accounted for under the equity method of accounting. The losses from equity method investments primarily relate to the amortization of goodwill and

intangible assets associated with these investments, which were adjusted upward in connection with the Merger.

Income Tax (Expense) Benefit. The relationship between income before income taxes and income tax expense for the General Partners is principally affected by the amortization of goodwill and certain other financial statement expenses that are not deductible for income tax purposes. Income tax expense for each of the General Partners includes all income taxes related to its allocable share of partnership income of TWE.

Net Income (Loss). WCI had net income (loss) of $(2.259) billion in 2001 compared to $44 million in 2000. The decrease primarily relates to a decrease in WCI's equity in the pretax income of TWE, an increase in losses related to investment write-downs, higher losses from certain investments accounted for under the equity method of accounting and higher amortization expense, offset in part by a $337 million non-cash pre-tax charge recorded in 2000 related to the cumulative effect of an accounting change in connection with the adoption of a new film accounting standard and a decrease in income tax expense.

FINANCIAL CONDITION AND LIQUIDITY

December 31, 2002

Current Financial Condition

WCI had $26.0 billion of equity at December 31, 2002, compared to $57.4 billion of equity at December 31, 2001. WCI had no borrowings outstanding to TW Companies under its revolving credit agreement at the end of either period. As discussed in more detail below, management believes that WCI's operating cash flow, cash and equivalents, and borrowing availability under its revolving credit agreement with TW Companies are sufficient to fund its capital and liquidity needs for the foreseeable future without cash distributions from TWE above those permitted by existing agreements.

ATC had $15.0 billion of equity at December 31, 2002, compared to $28.3 billion at December 31, 2001. Although ATC has no independent operations, it is expected that additional tax-related and other distributions from TWE, as well as availability under ATC's revolving credit agreement with TW Companies, will continue to be sufficient to satisfy ATC's obligations with respect to its tax sharing agreement with TW Companies for the foreseeable future.

Cash Flows

Operating Activities

In 2002, WCI's cash provided by operations amounted to $609 million and reflected $471 million of EBITDA, $294 million of distributions received from TWE, $189 million of net income tax refunds ($223 million of which was received from AOL Time Warner under a tax-sharing agreement), less a $345 million increase in other working capital requirements. In 2001, WCI's cash provided by operations of $477 million reflected $382 million of EBITDA, $188 million of distributions from TWE, $225 million of net income tax refunds ($297 million of which was received from AOL Time Warner under a tax-sharing agreement), less $318 million related to an increase in other working capital requirements.

Investing Activities

Cash used by investing activities increased to $312 million in 2002, compared to $228 million in 2001 as a result of a decrease in proceeds received from the sale of investments.

Financing Activities

Cash used by financing activities increased to $337 million in 2002 from $245 million in 2001 as a result of an increase in amounts due to TW Companies offset in part by decreased dividend payments.

WCI and ATC have no claims on the assets and cash flows of TWE except through the payment of certain reimbursements and cash distributions. In 2002, the General Partners received an aggregate $497 million of distributions from TWE, consisting of $473 million of tax-related distributions and $24 million of stock option related distributions. In 2001, the General Partners received an aggregate $317 million of distributions from TWE, consisting of $53 million of tax-related distributions and $264 million of stock option related distributions. Of such aggregate distributions, WCI received $294 million in 2002 and $188 million in 2001, and ATC received $203 million in 2002 and $129 million in 2001.

Outstanding Debt and Other Financing Arrangements

Outstanding Debt and Available Financial Capacity

At December 31, 2002, WCI had total committed capacity, defined as maximum available borrowings under its debt agreement with TW Companies, of approximately $1 billion. Of this committed capacity, approximately $1 billion was available to fund future contractual obligations, none of which was outstanding as debt. In addition, WCI has a liability to AOL Time Warner of $887 million as a result of the IPC acquisition, which occurred during the fourth quarter of 2001.

Other Financing Arrangements

From time to time, WCI, through AOL Time Warner, 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. WCI employs these financing arrangements because they provide a cost-efficient form of financing, including certain tax benefits, as well as an added level of diversification of funding sources. WCI 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 provide direct security for the funding being provided. The assets and financing associated with these arrangements generally qualify for off-balance sheet treatment. For more detail, see Note 17 to the accompanying consolidated financial statements. As of December 31, 2002, WCI's other financing arrangements consisted of an accounts receivable securitization facility which had committed capacity of $450 million, including amounts that can be used by non-WCI, AOL Time Warner segments. As of December 31, 2002, WCI had outstanding utilization under the facility of $450 million and no unused capacity.

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 SPEs) to 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 General Partners during the third quarter of 2003. Although the Company has not completed its review, the General Partners anticipate that the adoption of FIN 46 will not have a significant impact on their respective financial statements.

Rating Triggers and Financial Covenants

The General Partners source of funding is generally through participation in AOL Time Warner's bank credit agreements and financing arrangements with SPEs. Each of the AOL Time Warner's bank credit agreements and financing arrangements with SPEs, contain customary covenants. A breach of such covenants

in the bank credit agreements that continues beyond any grace period can constitute a default, which can limit the ability to borrow and can give rise to a right of the lenders to terminate the applicable facility and/or require immediate payment of any outstanding debt. A breach of such covenants in the financing arrangements in SPEs that continues beyond any grace period can constitute a termination event which can limit the facility as a future source of liquidity; however, there would be no claims on AOL Time Warner or WCI for the receivables previously sold. Additionally, in the event that AOL Time Warner's credit ratings decrease, the cost of maintaining its bank credit agreements and facilities and of borrowing increases and, conversely, if the ratings improve, such costs decrease.

As of December 31, 2002 and through the date of this filing, AOL Time Warner was in compliance with all covenants. Management does not foresee that AOL Time Warner will have any difficulty complying with the covenants currently in place in the foreseeable future.

Contractual and Other Obligations

Firm Commitments

In addition to the above financing arrangements, WCI has commitments under certain firm contractual arrangements ("firm commitments") to make future payments for goods and services. These firm commitments secure the future rights to various assets and services to be used in the normal course of operations. For example, WCI is contractually committed to make certain minimum lease payments for the use of property under operating lease agreements or make payments to music artists for future album deliveries. In accordance with current accounting rules, the future rights and obligations pertaining to such firm commitments are not reflected as assets or liabilities on the accompanying consolidated balance sheet.

The following table summarizes separately WCI's firm commitments at December 31, 2002 and the timing and effect that such obligations are expected to have on WCI's liquidity and cash flow in future periods. It should be noted that there are a number of firm commitments made by WCI in the normal course of business, the following table represents the more significant of those firm commitments. WCI expects to fund these commitments with operating cash flow generated in the normal course of business.

Nature of Firm Commitments	2003	2004-2006	2007 and thereafter	Total
		(millions)		
Talent contracts	$109	$329	$109	$547
Net operating leases	55	175	120	350
Letter of credit and other firm commitments	10	11	—	21
Total firm commitments	$174	$515	$229	$918

Contingent Commitments

From time to time, WCI enters into certain contractual arrangements that require WCI to make payments or provide funding if certain circumstances occur ("contingent commitments"). Contingent commitments were not significant as of December 31, 2002.

Guarantees

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45 requires that a liability be recorded in the guarantor's balance sheet upon issuance of a guarantee. In addition, FIN 45 requires disclosures about the guarantees that an entity has issued, including a reconciliation of changes in the entity's product warranty liabilities. The initial recognition and initial measurement

provisions of FIN 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002, irrespective of the guarantor's fiscal year-end. The initial recognition and initial measurement provisions of FIN 45 are not expected to have a material impact on the General Partners' consolidated financial statements. The disclosure requirements of FIN 45 are effective for financial statements of interim or annual periods ending after December 15, 2002; therefore, the General Partners have modified its disclosures herein as required.

Equity Method Investments

Except for the guarantee of TWE's debt, as discussed in Note 9 to the accompanying consolidated financial statements, the General Partners do not guarantee the debt of any of their investments accounted for using the equity method of accounting. However, for certain of these investments, WCI expects to continue to provide funding in excess of amounts currently invested.

MARKET RISK MANAGEMENT

Market risk for WCI includes the potential loss arising from adverse changes in market rates and prices, such as, foreign currency exchange rates and changes in the market value of investments.

Foreign Currency Risk

AOL Time Warner uses foreign exchange contracts primarily to hedge the risk that unremitted or future royalties and license fees owed to WCI domestic companies for the sale or anticipated sale of U.S. copyrighted products abroad may be adversely affected by changes in foreign currency exchange rates. As part of its overall strategy to manage the level of exposure to the risk of foreign currency exchange rate fluctuations, primarily exposure to changes in the value of the British pound, Japanese yen, and European currency, AOL Time Warner hedges a portion of its, TWE's and WCI's combined foreign currency exposures anticipated over the ensuing fifteen-month period (the "hedging period"). At December 31, 2002, AOL Time Warner had effectively hedged approximately 75% of WCI's estimated net foreign currency exposures that principally relate to anticipated cash flows for royalties and license fees to be remitted to the U.S. over the ensuing hedging period. The hedging period for royalties and license fees covers revenues expected to be recognized over the ensuing twelve-month period, however, there is often a lag between the time that revenue is recognized and the transfer of foreign-denominated revenues back into U.S. dollars, therefore, the hedging period covers a fifteen month period. To hedge this exposure, AOL Time Warner uses foreign exchange contracts that generally have maturities of three months to fifteen months providing continuing coverage throughout the hedging period. AOL Time Warner reimburses or is reimbursed by WCI for contract gains and losses related to WCI's foreign currency exposure. At December 31, 2002, AOL Time Warner had contracts for the sale of $1.588 billion and the purchase of $ 1.341 billion of foreign currencies at fixed rates. Of AOL Time Warner's $247 million net sale contract position, $613 million of foreign exchange sale contracts and $430 million of foreign exchange purchase contracts related to WCI's foreign currency exposure, including net contracts for the sale of $90 million of Japanese yen and $252 million of European Currency and net contracts for the purchase of $153 million of the British pound. This compared to contracts for the sale of $448 million and the purchase of $400 million of foreign currencies for WCI at December 31, 2001, including net contracts for the sale of $146 million of Japanese yen, and net contracts for the purchase of $28 million of European currency and $62 million of the British pound.

Based on AOL Time Warner's outstanding foreign exchange contracts related to WCI's exposure at December 31, 2002, each 5% devaluation of the U.S. dollar would result in approximately $9 million of net unrealized losses on contracts. Conversely, a 5% appreciation of the U.S. dollar would result in approximately $9 million of net unrealized gains on contracts. Consistent with the nature of the economic hedge provided by such foreign exchange contracts, such unrealized gains or losses largely would be offset by corresponding

decreases or increases, respectively, in the dollar value of future foreign currency royalty and license fee payments that would be received in cash within the hedging period from the sale of U.S. copyrighted products abroad.

Equity Risk

The General Partners are exposed to market risk as it relates to changes in market value of their investments. The General Partners invest in equity instruments of public and private companies for operational and strategic business purposes. These securities are subject to significant fluctuations in fair market value due to volatility of the stock market and the industries in which the companies operate. These securities, which are classified in "Other investments" on the accompanying consolidated balance sheet, include investments accounted for using the equity method of accounting, investments in private securities and equity derivative instruments. As of December 31, 2002, WCI had approximately $58 million of investments accounted for at cost, primarily relating to private equity securities, approximately $96 million of available-for-sale securities and approximately $4.199 billion of investments accounted for using the equity method of accounting. As of December 31, 2002, substantially all of ATC's investments consisted of investments accounted for using the equity method of accounting.

Over the last three years, the General Partners experienced significant declines in the value of certain investments. As a result, WCI has recorded non-cash pretax charges of $446 million in 2002, $676 million in 2001 and $115 million in 2000 and ATC has recorded non-cash pretax charges of $244 million in 2002, $372 million in 2001 and $0 in 2000. These charges were primarily to reduce the carrying value of certain publicly traded and privately held investments and investments accounted for using the equity method of accounting that had experienced other-than-temporary declines in value. While the General Partners have recognized all declines that are believed to be other-than-temporary, it is reasonably possible that individual investments in the General Partners' portfolios may experience an other-than-temporary decline in value in the future if the underlying investee experiences poor operating results or the U.S. equity markets experience future broad declines in value. See Note 7 to the accompanying consolidated financial statements for additional discussion.

CRITICAL ACCOUNTING POLICIES

The SEC's Financial Reporting Release No. 60, "Cautionary Advice Regarding Disclosure About Critical Accounting Policies" ("FRR 60"), suggests companies provide additional disclosure and commentary on those accounting policies considered most critical. FRR 60 considers an accounting policy to be critical if it is important to the company's financial condition and results, and requires significant judgment and estimates on the part of management in its application. The General Partners believe the following represent the critical accounting policies of the General Partners as contemplated by FRR 60. As noted in the following discussion, such critical policies may relate directly to either WCI only or both of the General Partners. In addition, since a substantial portion of WCI's and ATC's results are derived from their investments in TWE, a discussion of some of the critical accounting policies impacting TWE has been included. Any impact on TWE's pretax income would impact WCI's and ATC's equity in pretax income (loss) of TWE. For a summary of all of the General Partners' significant accounting policies, see Note 1 to the accompanying consolidated financial statements.

Accounting for Goodwill and Other Intangible Assets

During 2001, the FASB issued 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. FAS 142 requires that goodwill and certain intangible assets be assessed for impairment using fair value

measurement techniques. Specifically, goodwill impairment is determined using a two-step process. The first step of the goodwill impairment test is used to identify potential impairment by comparing the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired and the second step of the impairment test is unnecessary. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any. The second step of the goodwill impairment test compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. That is, the fair value of the reporting unit is allocated to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid to acquire the reporting unit. The impairment test for other intangible assets consists of a comparison of the fair value of the intangible asset with its carrying value. If the carrying value of the intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess.

Determining the fair value of a reporting unit under the first step of the goodwill impairment test and determining the fair value of individual assets and liabilities of a reporting unit (including unrecognized intangible assets) under the second step of the goodwill impairment test is judgmental in nature and often involves the use of significant estimates and assumptions. Similarly, estimates and assumptions are used in determining the fair value of other intangible assets. These estimates and assumptions could have a significant impact on whether or not an impairment charge is recognized and also the magnitude of any such charge. To assist in the process of determining goodwill impairment, the General Partners obtain appraisals from independent valuation firms. In addition, to the use of independent valuation firms, the General Partners perform internal valuation analyses, and considers other market information that is publicly available. Estimates of fair value are primarily determined using discounted cash flows and market comparisons and recent transactions. These approaches use significant estimates and assumptions including projected future cash flows (including timing), discount rate reflecting the risk inherent in future cash flows, perpetual growth rate, determination of appropriate market comparables and the determination of whether a premium or discount should be applied to comparables.

During the first quarter of 2002, upon adoption of FAS 142, WCI and ATC completed their initial impairment reviews and recorded non-cash pre-tax charges of $18.962 billion and $9.603 billion, respectively, for the impairment of goodwill, substantially all of which was generated in the Merger. During the fourth quarter of 2002, WCI and ATC performed their annual impairment reviews for goodwill and other intangible assets and recorded an additional charge of $646 million to reduce the carrying value of goodwill, as well as a charge to reduce the carrying value of brands and trademarks owned by WCI ($853 million). The $18.962 billion and $9.603 billion charges are reflected as a cumulative effect of an accounting change and the $646 million and $853 million charges are reflected as a component of operating income in the accompanying consolidated statement of operations. These charges are non-operational and non-cash in nature and do not affect the General Partners' liquidity.

Consistent with FRR 60, WCI has provided sensitivity analysis in instances when such analysis is meaningful. As previously discussed, WCI's $646 million goodwill impairment charge recognized in the fourth quarter of 2002, reflected the fair value of WCI as of December 31, 2002. Assuming an increase in the fair value of WCI of 10% would have reduced WCI's goodwill impairment charge by $307 million. Assuming a decline in fair value of 10% would not impact the amount of goodwill impairment because the carrying amount of goodwill was reduced to zero as a result of the actual fourth quarter impairment charge. This analysis does not consider any potential impairments relating to indefinite lived intangibles.

Merger Accounting

The merger of America Online and Time Warner has been accounted for by AOL Time Warner as an acquisition of Time Warner under the purchase method of accounting for business combinations. Under the purchase method of accounting, the cost, including transaction costs, of approximately $147 billion to acquire Time Warner was allocated to the underlying net assets, including the net assets of TWE and the General Partners, based on their respective estimated fair values. The excess of the purchase price over the estimated fair values of the net assets acquired was recorded as goodwill. Consistent with accounting principles generally accepted in the U.S. at the time the Merger was consummated, AOL Time Warner valued the purchase price to acquire Time Warner based upon the fair value of the AOL Time Warner shares issued in the Merger on the Merger's announcement date. Due to beneficial market conditions existing at that time, this resulted in a significantly higher purchase price and recorded goodwill than if the purchase price had been valued based upon AOL Time Warner shares on the Merger's consummation date.

The judgments made in determining the estimated fair value and expected useful lives assigned to each class of assets and liabilities acquired can significantly impact net income. For example, different classes of assets will have useful lives that differ — the useful life of a customer list may not be the same as the useful life of a music catalogue or copyright. Consequently, to the extent a longer-lived asset (e.g., music copyright) is ascribed greater value under the purchase method than a shorter-lived asset (e.g., customer list), there may be less amortization recorded in a given period.

Determining the fair value of certain assets and liabilities acquired is judgmental in nature and often involves the use of significant estimates and assumptions. As provided by the accounting rules, AOL Time Warner used the one-year period following the consummation of the Merger to finalize estimates of the fair value of assets and liabilities acquired. One of the areas that require more judgment in determining fair values and useful lives is intangible assets. To assist in this process, AOL Time Warner obtained appraisals from independent valuation firms for certain intangible assets. While there were a number of different methods used in estimating the value of the intangibles acquired, there were two approaches primarily used: discounted cash flow and market multiple approaches. Some of the more significant estimates and assumptions inherent in the two approaches include: projected future cash flows (including timing); discount rate reflecting the risk inherent in the future cash flows; perpetual growth rate; determination of appropriate market comparables; and the determination of whether a premium or a discount should be applied to comparables. Most of the above assumptions were made based on available historical information.

Investments

The General Partners' investments comprise of fair value investments, including available-for-sale securities, investments accounted for using the cost method of accounting and investments accounted for using the equity method of accounting. A judgmental aspect of accounting for investments involves determining whether an other-than-temporary decline in value of the investment has been sustained. If it has been determined that an investment has sustained an other-than-temporary decline in its value, the investment is written down to its fair value, by a charge to earnings. Such evaluation is dependent on the specific facts and circumstances. Factors that are considered by the General Partners in determining whether an other-than-temporary decline in value has occurred include: the market value of the security in relation to its cost basis; the financial condition of the investee; and the intent and ability to retain the investment for a sufficient period of time to allow for recovery in the market value of the investment.

In evaluating the factors above for available-for-sale securities, management presumes a decline in value to be other-than-temporary if the quoted market price of the security is 20% or more below the investment's cost basis for a period of six months or more (the "20% criteria") or the quoted market price of the security is 50% or more below the security's cost basis at any quarter end (the "50% criteria"). However, the

presumption of an other-than-temporary decline in these instances may be overcome if there is persuasive evidence indicating that the decline is temporary in nature (e.g., strong operating performance of investee, historical volatility of investee, etc.). Additionally, there may be instances where impairment losses are recognized even if the 20% and 50% criteria are not satisfied (e.g., plan to sell the security in the near term and the fair value is below the General Partner's cost basis).

For investments accounted for using the cost or equity method of accounting, management evaluates information (e.g., budgets, business plans, financial statements, etc.) in addition to quoted market price, if any, in determining whether an other-than-temporary decline in value exists. Factors indicative of an other-than-temporary decline include recurring operating losses, credit defaults and subsequent rounds of financings at an amount below the cost basis of the investment. This list is not all inclusive and management weighs all quantitative and qualitative factors in determining if an other-than-temporary decline in value of an investment has occurred.

The United States economy has experienced a broad decline in the public equity markets, particularly in technology stocks, including investments held in the General Partners' portfolio. Similarly, the General Partners experienced significant declines in the value of certain privately held investments, restricted securities and investments accounted for using the equity method of accounting. As a result, the General Partners recorded non-cash pretax charges to reduce the carrying value of certain investments that experienced other-than-temporary declines, and to reflect market fluctuations in equity derivative instruments. These charges were approximately $446 million in 2002, $676 million in 2001 and $115 million in 2000 for WCI, and are included in other income (expense), net in the accompanying consolidated statement of operations. These charges were approximately $244 million in 2002, $372 million in 2001 and $0 million in 2000 for ATC, and are included in other income (expense), net in the accompanying consolidated statement of operations. The portion of the above charges relating to publicly traded securities was $433 million in 2002, $599 million in 2001 and $0 in 2000 for WCI and $244 million in 2002, $372 million in 2001 and $0 in 2000 for ATC. A detail of the application of the General Partners' investment impairment policy over the last three years is provided in Note 7.

While the General Partners have recognized all declines that are believed to be other-than-temporary, it is reasonably possible that individual investments in the General Partners' portfolios may experience an other-than-temporary decline in value in the future if the underlying investee experiences poor operating results or the U.S. equity markets experience future broad declines in value. As of December 31, 2002, the General Partners had one investment for which the fair value of the investment was below carrying value, but the Company had determined that the decline in value was temporary. Assuming that the fair values of this investment remains at its current levels, and assuming no change in any qualitative factors regarding this investment, the General Partners would expect to record an additional impairment charge of approximately $1 million over the first six months of 2003.

Accounting for Artist Advances

Another area of judgment affecting reported net income is management's estimate of the recoverability of artist advances. The recoverability of those assets is based on management's forecast of anticipated revenues from the sale of future and existing music. In determining whether those amounts are recoverable, management evaluates the current and past popularity of the artists, the initial commercial acceptability of the product, the current and past popularity of the genre of music, that the product is designed to appeal to, and other relevant factors. Based on this information, management expenses the portion of such advances that it believes is not recoverable.

Revenue and Cost Recognition

There are two areas related to revenue and cost recognition which incorporate significant judgment and estimates by management — the accounting for multiple-element arrangements and the amortization of film costs resulting from the determination of revenue ultimates under the film accounting rules.

Multiple-Element Transactions

Multiple-Element transactions within WCI and TWE fall broadly into two categories:

1. Contemporaneous purchases and sales. In these transactions, WCI or TWE is selling a product or service to a customer and at the same time purchasing goods or services from that customer or making an investment in the customer; and

2. Sales of multiple products or services. In these transactions, WCI or TWE is selling multiple products or services to a counterparty.

Contemporaneous Purchases and Sales

In the normal course of business, WCI or TWE enters into transactions where it is purchasing a product, service or making an investment in a vendor and at the same time it is negotiating a contract for the sale of advertising to the vendor. For example, when negotiating programming arrangements with cable networks, TWE will, at times, simultaneously negotiate for the sale of advertising to the cable network. This arrangement may be documented in one contract or may be documented in two separate contracts; whether there are one or two contracts, these arrangements are negotiated simultaneously. In accounting for these arrangements, WCI or TWE looks to the guidance contained in the following authoritative literature:

- APB Opinion No. 29, "Accounting for Nonmonetary Transactions" (APB 29); and
- EITF 01-09, "Accounting for Consideration Given by a Vendor to a Customer" (EITF 01-09).

WCI or TWE measures these transactions based on the respective fair values of the goods or services purchased and the goods or services sold. If WCI or TWE is unable to determine the fair value of one or more of the element(s) being purchased, then revenue recognition is limited to the total consideration received for the products or services sold less the amounts paid that can be supported. For example, if TWE sells advertising to a customer for $10 million in cash and contemporaneously enters into an arrangement to acquire software for $2 million from the same customer, but fair value for the software cannot be reliably determined, TWE would limit the amount of revenue recognized related to the advertising sold to $8 million. As another example, if TWE sells advertising to a customer for $10 million in cash and contemporaneously invests $2 million in the equity of that same customer, but fair value for the equity investment is only determined to be $1 million, TWE would limit the amount of revenue recognized related to the advertising sold to $9 million. Accordingly, the judgments made in accounting for these arrangements impact the period revenues, expenses and net income over the term of the contract.

In applying the above guidance, one of the key judgments is determining the fair value of the respective elements. In determining the fair value of the respective elements, the WCI and TWE refer to quoted market prices, historical transactions or comparable cash transactions. For example, in determining the fair value of a non-publicly traded equity security purchased at the same time WCI or TWE sells a good or a service to an investee, WCI or TWE would look to what other investors who do not have other contemporaneous transaction, have paid in the most recent round of financings with the investee. If the investment is publicly traded, fair value would be determined by reference to quoted market prices. In addition, the stated terms of a transaction are considered to be at fair value to the extent that price protection in the form of "most favored nation" clauses or similar contractual provisions has been received.

Finally, in a contemporaneous purchase and sale transaction, evidence of fair value for one element of a transaction will provide support for the fair value of the other element of a transaction. For example, if TWE sells advertising to a customer and contemporaneously invests in the equity of that same customer, evidence of the fair value of the investment would implicitly support the fair value of the advertising sold since there are only two elements in the arrangement.

Sales of Multiple Products or Services

WCI's and TWE's policy for revenue recognition in instances where there are multiple elements being sold at the same time to the same counterparty is in accordance with the Frequently Asked Question Guide on SAB 101 and is similar to the principles underlying the recently finalized EITF Issue No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables." Specifically, if WCI or TWE enters into sales contracts for the sale of multiple products or services, then they evaluate whether they have objective fair value evidence for each element of the transaction. If objective fair value evidence for each element of the transaction exists, then each element of the transaction is accounted for independently as it is being delivered based on the relevant revenue recognition accounting policies. However, if the objective fair value for one or more elements of the transaction are unable to be determined, WCI generally recognizes advertising revenue on a straight line-basis over the term of the agreement.

Filmed Entertainment Revenues and Costs

An aspect of TWE's film accounting that requires the exercise of judgment relates to the process of estimating the total revenues to be received throughout a film's life cycle. Such estimate of a film's "ultimate revenue" is important for two reasons. First, while a film is being produced and the related costs are being capitalized, it is necessary for TWE's management to estimate the ultimate revenues, less additional costs to be incurred including exploitation costs, in order to determine whether the value of a film has been impaired and thus requires an immediate write off of unrecoverable film costs. Second, the amount of capitalized film costs recognized as cost of revenues for a given film as it is exhibited in various markets, throughout its life cycle, is based upon the proportion of the film's revenues recognized for such period to the film's estimated ultimate total revenues. Similarly the recognition of participants and residuals is recognized based upon the proportion of the film's revenues recognized for such period to the film's estimated ultimate total revenues.

TWE's Management bases its estimates of ultimate revenue for each film on the historical performance of similar films, incorporating factors such as the star power of the lead actors and actresses, the genre of the film and the expected number of theatres at which the film will be released. Management updates such estimates based on the actual results of each film. For example, a film which has resulted in lower-than-expected theatrical revenues in its initial weeks of release would generally have its theatrical, home video and distribution ultimate revenues adjusted downward; a failure to do so would result in the understatement of amortized film costs for the period. Since the total film cost to be amortized for a given film is fixed, the estimate of ultimate revenues impacts only the timing of film cost amortization.

Gross Versus Net Revenue Recognition

In the normal course of business, WCI acts an intermediary or agent with respect to certain payments received from third parties. For example, WCI distributes music product (e.g., CDs and DVDs) on behalf of third party record labels, TWE distributes films on behalf of independent film producers and TWE collects taxes on behalf of franchising authorities.

The accounting issue encountered in these arrangements is whether WCI and TWE should report revenue based on the "gross" amount billed to the ultimate customer or on the "net" amount received from the customer after commissions and other payments to third parties. To the extent revenues are recorded

gross, any commissions or other payments to third parties are recorded as expenses so that the net amount (gross revenues, less expenses) flows through operating income. Accordingly, the impact on operating income is the same, whether the revenue is recorded on a gross or net basis. For example, if WCI distributes a CD to a wholesaler for $15 and passes $10 to the third party record label, should WCI record gross revenue from the wholesaler of $15 and $10 of expenses or should they record the net revenues they keep of $5? In either case, the impact on operating income is $5.

Determining whether revenue should be reported gross or net is based on an assessment of whether WCI is acting as the "principal" in a transaction or acting as an "agent" in the transaction. To the extent WCI is acting as a principal in a transaction, WCI reports as revenue the payments received on a gross basis. To the extent WCI is acting as an agent in a transaction it reports as revenue the payments received less commissions and other payments to third parties, i.e., on a net basis. The determination of whether WCI is serving as principal or agent in a transaction is judgmental in nature and based on an evaluation of the terms of an arrangement.

In determining whether WCI serves as principal or agent in these arrangements WCI follows the guidance in EITF 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent" ("EITF 99-19"). Pursuant to such guidance, WCI serves as the principal in transactions in which it has substantial risks and rewards of ownership. The indicators that WCI has substantial risks and rewards of ownership are as follows:

- WCI is the supplier of the products or services to the customer;
- WCI has general inventory risk for a product before it is sold;
- WCI has latitude in establishing prices;
- WCI has the contractual relationship with the ultimate customer;
- WCI modifies the product purchased to meet the ultimate customer specifications;
- WCI has discretion in supplier selection; and
- WCI has credit risk.

Conversely, pursuant to EITF 99-19 WCI serves as agent in arrangements where WCI does not have substantial risks and rewards of ownership. The indicators that WCI does not have substantial risks and rewards of ownership are as follows:

- The supplier (not WCI) is responsible for providing the product or service to the customer;
- The supplier (not WCI) has latitude in establishing prices;
- The amount WCI earns is fixed; and
- The supplier (not WCI) has credit risk.

Based on the above criteria and for our more significant transactions that are evaluated, WCI records the distribution of product on behalf of third party record labels on either a gross or net basis depending on the terms of the contract, TWE records revenue from the distribution of films on behalf of independent film producers on a gross basis and TWE records revenue from the collection of franchise fees on a gross basis.

Sales Returns and Uncollectible Accounts

One area of judgment affecting reported revenue and net income is management's estimate of product sales that will be returned and the amount of receivables that will ultimately be collected. In determining the estimate of product sales that will be returned, management analyzes historical returns, current economic trends, changes in customer demand and the acceptance of WCI's and TWE's products. Based on this information, management reserves a percentage of each dollar of product sales that provide the customer with the right of return.

Similarly, management evaluates accounts receivables to determine if they will ultimately be collected. In performing this evaluation, significant judgments and estimates are involved, including an analysis of

specific risks on a customer-by-customer basis for larger accounts and customers, and an analysis of receivables aging that determines the percent that has historically been uncollected by aged category. Based on this information, management reserves an amount that is believed to be uncollectible.

RISK FACTORS AND CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

Risk Factors

If the events discussed in these risk factors occur, the business, financial condition, results of operations or cash flows of the General Partners or TWE, in which the General Partners have an investment, could be materially adversely affected.

Technological developments may adversely affect the General Partners' and TWE's competitive position and limit its ability to protect its valuable intellectual property rights. The businesses of the General Partners and TWE operate in the highly competitive, consumer-driven and rapidly changing media and entertainment industries. These businesses, as well as the industries generally, are to a large extent dependent on technological developments, including access to and selection and viability of new technologies, and are subject to potential pressure from competitors as a result of their technological developments. For example:

- WCI's music business may be adversely affected by technological developments, such as Internet peer-to-peer file sharing and CD-R activity, that facilitate the piracy of music; by its inability to enforce WCI's intellectual property rights in digital environments; and by its failure to develop a successful business model applicable to a digital online environment.
- TWE's cable business may be adversely affected by more aggressive than expected competition from alternate technologies such as satellite and DSL; by the failure to choose technologies appropriately; by the failure of new equipment, such as digital set-top boxes or digital video recorders, or services, such as digital cable, high-speed data services and video-on-demand, to appeal to enough consumers or to be available at prices consumers are willing to pay, to function as expected and to be delivered in a timely fashion;
- TWE's filmed entertainment and television network businesses may be adversely affected by the fragmentation of consumer leisure and entertainment time caused by a greater number of choices resulting from technological developments, the impact of personal video recorder or other technologies that have "ad-stripping" functions, and technological developments that facilitate the piracy of its copyrighted works;

Caution Regarding Forward-Looking Statements

The SEC encourages companies to disclose forward-looking information so that investors can better understand a company's future prospects and make informed investment decisions. This document contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, particularly statements anticipating future growth in revenues, EBITDA and cash flow. Words such as "anticipates," "estimates," "expects," "projects," "intends," "plans," "believes" and words and terms of similar substance used in connection with any discussion of future operating or financial performance identify forward-looking statements. These forward-looking statements are based on management's present expectations and beliefs about future events. As with any projection or forecast, they are inherently susceptible to uncertainty and changes in circumstances, and the General Partners are under no obligation to, and expressly disclaim any obligation to, update or alter its forward-looking statements whether as a result of such changes, new information, subsequent events or otherwise.

The General Partners, operate in a highly competitive, consumer-driven and rapidly changing media and entertainment businesses. These businesses are affected by government regulation, economic, strategic,

political and social conditions, consumer response to new and existing products and services, technological developments and, particularly in view of new technologies, the continued ability to protect intellectual property rights. The General Partners' actual results could differ materially from management's expectations because of changes in such factors. Other factors and risks could adversely affect the operations, business or financial results of the General Partners' in the future and could also cause actual results to differ from those contained in the forward-looking statements, including those identified in the General Partners' other filings with the SEC and the following, which include factors and risks inherent in the General Partners' investment in TWE:

For WCI's music business:

- the ability to continue to attract and select desirable talent at manageable costs; the popular demand for particular artists and albums; the timely completion of albums by major artists;
- the ability to continue to enforce its intellectual property rights in digital environments; piracy of music by means of Internet peer-to-peer file sharing and organized and home CD-R activity;
- the ability to develop a successful business model applicable to a digital online environment;
- the ability to maintain retail product pricing in a competitive environment;
- the potential loss of catalog if it is determined that recording artists have a right to recapture sound recordings under the United States Copyright Act;
- the potential repeal of Subsection (b) of California Labor Code Section 2855, a Section which prescribes a maximum length for personal service contracts;
- the risk that there will be other federal and state statutes enacted which are similar to California Labor Code Section 2855, a Section which prescribes a maximum length for personal service contracts;
- risks from disruptions in the retail environment from bankruptcies, store closings and liquidity problems of record retailers;
- risks associated with foreign currency exchange rates;
- the ability to utilize DVD manufacturing capacity fully and to maintain current DVD manufacturing pricing; and
- the overall strength of global music sales.

For TWE's cable business:

- more aggressive than expected competition from new technologies and other types of video programming distributors, including satellite and DSL;
- increases in government regulation of basic cable or equipment rates or other terms of service, such as "digital must-carry," "forced access" or common carrier requirements; government regulation of other services, such as broadband cable modem service;
- the failure of new equipment, such as digital set-top boxes or digital video recorders, or services, such as digital cable, high-speed data services or video-on-demand, to appeal to enough consumers or to be available at prices consumers are willing to pay, to function as expected and to be delivered in a timely fashion;
- fluctuations in spending levels by advertisers and consumers; and
- greater than expected increases in programming or other costs.

For TWE's filmed entertainment businesses:

- the ability to continue to attract and select desirable talent and scripts at manageable costs;
- general increases in production costs;
- fragmentation of consumer leisure and entertainment time and its possible negative effects on the broadcast and cable networks, which are significant customers of these businesses;
- continued popularity of merchandising;
- the uncertain impact of technological developments that may facilitate piracy of its copyrighted works;
- the ability to develop and apply adequate protections for filmed entertainment content in a digital delivery environment;
- the ability to develop a successful business model for delivery of feature films in a digital online environment;
- risks associated with foreign currency exchange rates;
- with respect to feature films, the increasing marketing costs associated with theatrical film releases in a highly competitive marketplace;
- with respect to television programming, a decrease in demand for television programming provided by non-affiliated producers; and
- with respect to home video, the ability to maintain relationships with significant customers in the rental and sell-through markets.

For TWE's network businesses:

- greater than expected news gathering, programming or production costs;
- public or cable operator resistance to price increases and the negative impact on premium programmers of increases in basic cable rates;
- increased regulation of distribution agreements;
- the sensitivity of network advertising to economic cyclicality and to new media technologies;
- the negative impact of consolidation among cable and satellite distributors;
- piracy of content by means of interception of cable and satellite transmissions or Internet peer-to-peer file sharing;
- the impact of personal video recorder "ad-stripping" functions on advertising sales and network branding;
- the development of new technologies that alter the role of programming networks and services; and
- greater than expected fragmentation of consumer viewership due to an increased number of programming services or the increased popularity of alternatives to television.

For the General Partners generally, the overall financial strategy, including growth in operations, maintaining financial ratios and a strong balance sheet, could be adversely affected by decreased liquidity in the capital markets, including any reduction in the ability to access either the capital markets for debt securities or bank financings, significant acquisitions or other transactions, economic slowdowns, the risk of war and changes in the General Partners' plans, strategies and intentions. In addition, lower than expected valuations associated with the cash flows and revenues may result in its inability to realize the value of recorded intangibles and goodwill.

Item 14. Controls and Procedures

Within the 90-day period prior to the filing of this report, each of the General Partners, under the supervision and with the participation of its management, including the Chief Executive Officer and Chief

Financial Officer of such General Partner, evaluated the effectiveness of the design and operation of such General Partner'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 of each General Partner concluded that such General Partner's disclosure controls and procedures are effective in timely making known to them material information relating to such General Partner and such General Partner's consolidated subsidiaries required to be disclosed in the General Partners' reports filed or submitted under the Exchange Act. The General Partners have investments in certain unconsolidated entities. As the General Partners do not control or manage these entities, their disclosure controls and procedures with respect to such entities are necessarily substantially more limited than those maintained with respect to consolidated subsidiaries. There have been no significant changes in the General Partners' internal controls or in other factors that could significantly affect the internal controls subsequent to the date the General Partners completed their respective evaluations.

TWE GENERAL PARTNERS
CONSOLIDATED BALANCE SHEETS
December 31,
(millions)

	WCI		ATC	
	2002	2001	2002	2001
ASSETS				
Current assets				
Cash and equivalents	$ —	$ 40	$ —	$ —
Receivables, less allowances of $294 and $355 million	842	944	—	—
Inventories	131	121	—	—
Prepaid expenses and other current assets	736	708	—	—
Total current assets	1,709	1,813		—
Investments in and amounts due to and from TWE	19,340	36,834	13,383	25,292
Investments in TW Companies	103	103	59	60
Other investments	4,353	6,084	1,199	3,047
Intangible subject to amortization	2,871	2,926	—	—
Intangible assets not subject to amortization	790	1,643	—	—
Goodwill	381	11,799	262	262
Other assets, primarily property, plant and equipment for WCI and net deferred tax assets for ATC	677	621	120	—
Total assets	$ 30,224	$61,823	$ 15,023	$28,661
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Accounts payable	$ 285	$ 222	$ —	$ —
Royalties payable	895	891	—	—
Other current liabilities	522	894	—	—
Total current liabilities	1,702	2,007	—	—
Deferred income taxes	1,213	1,656	—	124
Other long-term liabilities, including $4, $264, $3 and $199 million due to TW Companies	1,318	736	3	199
Shareholders' equity				
Common stock	1	1	1	1
Preferred stock of WCI, $.01 par value, 90,000 outstanding and $90 million liquidation preference	—	—	—	—
Paid-in capital	49,552	60,162	26,261	29,773
Accumulated other comprehensive income (loss), net	(139)	(175)	(68)	(35)
Retained earnings (deficit)	(23,156)	(1,794)	(10,900)	(622)
	26,258	58,194	15,294	29,117
Due from TW Companies, net	319	(184)	62	(443)
Reciprocal interest in TW Companies stock	(586)	(586)	(336)	(336)
Total shareholders' equity	25,991	57,424	15,020	28,338
Total liabilities and shareholders' equity	$ 30,224	$61,823	$ 15,023	$28,661

See accompanying notes.

TWE GENERAL PARTNERS
CONSOLIDATED STATEMENTS OF OPERATIONS
Years Ended December 31,
(millions)

	WCI			ATC		
	2002	2001	2000	2002	2001	2000
Revenues[a]	$ 4,205	$ 4,036	$ 4,268	$ —	$ —	$ —
Cost of revenues[a]	(2,412)	(2,121)	(2,358)	—	—	—
Selling, general and administrative[a]	(1,444)	(1,630)	(1,481)	—	—	—
Amortization of goodwill and other intangibles	(175)	(836)	(241)	—	(11)	—
Impairment of goodwill and other intangibles	(1,499)	—	—	—	—	—
Operating income (loss)	(1,325)	(551)	188	—	(11)	—
Equity in pretax income (loss) of TWE	(427)	(969)	539	(352)	(665)	371
Interest expense, net	(59)	(25)	(3)	—	(1)	(1)
Other income (expense), net[a]	(308)	(1,088)	(188)	(237)	(568)	36
Income (loss) before income taxes and cumulative effect of accounting change	(2,119)	(2,633)	536	(589)	(1,245)	406
Income tax (expense) benefit[a]	80	374	(290)	(120)	212	(186)
Income (loss) before cumulative effect of accounting change	(2,039)	(2,259)	246	(709)	(1,033)	220
Cumulative effect of accounting change, net of $135 million income tax benefit for WCI and $91 million income tax benefit for ATC	(18,962)	—	(202)	(9,603)	—	(136)
Net income (loss)	$(21,001)	$(2,259)	$ 44	$(10,312)	$(1,033)	$ 84

[a] Includes the following income (expenses) resulting from transactions with AOL Time Warner, TW Companies, TWE or equity investees of the General Partners:

Revenues	$ 421	$ 307	$ 323	$ —	$ —	$ —
Cost of revenues	(4)	(5)	(11)	—	—	—
Selling, general and administrative	(35)	(14)	(15)	—	—	—
Equity in pretax income (loss) of TWE	(154)	(114)	(107)	—	—	—
Other income (expense), net	24	21	12	—	—	—
Income tax benefit (expense)	223	297	(107)	(72)	111	(122)

See accompanying notes.

TWE GENERAL PARTNERS
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31,
(millions)

	WCI			ATC		
	2002	**2001**	**2000**	**2002**	**2001**	**2000**
OPERATING ACTIVITIES						
Net income (loss)	$(21,001)	$(2,259)	$ 44	$(10,312)	$(1,033)	$ 84
Adjustments for non-cash and nonoperating items:						
Cumulative effect of accounting change	18,962	—	202	9,603	—	136
Impairment of goodwill	646	—	—	—	—	—
Depreciation and amortization	297	933	324	—	11	—
Loss on writedown of investments	446	676	115	244	372	—
Intangible asset impairment	853	—	—	—	—	—
Excess of distributions over equity in pretax income of TWE	722	1,157	55	555	794	38
Equity in losses (income) of other investee companies after distributions	(48)	418	66	(7)	196	(14)
Changes in operating assets and liabilities:						
Receivables	55	441	(179)	—	—	—
Inventories	(7)	12	(9)	—	—	—
Accounts payable and other liabilities	(395)	(255)	(293)	(85)	—	—
Other balance sheet changes	79	(646)	124	147	(107)	132
Cash provided by operating activities	609	477	449	145	233	376
INVESTING ACTIVITIES						
Investments and acquisitions	(167)	(153)	(49)	—	—	—
Capital expenditures	(180)	(166)	(166)	—	—	—
Investment proceeds	35	91	—	—	—	—
Cash used by investing activities	(312)	(228)	(215)	—	—	—
FINANCING ACTIVITIES						
Repayment of loan to AOL Time Warner	(857)	—	—	—	—	—
Borrowings from AOL Time Warner	857	—	—	—	—	—
Other Borrowings	5	—	—			
Other debt payments	(15)	—	—			
Dividends	(56)	(164)	(148)	(10)	(107)	(97)
Increase in amounts due to (from) TW Companies, net	(271)	(81)	(157)	(135)	(126)	(279)
Cash used by financing activities	(337)	(245)	(305)	(145)	(233)	(376)
INCREASE (DECREASE) IN CASH AND EQUIVALENTS	(40)	4	(71)	—	—	—
CASH AND EQUIVALENTS AT BEGINNING OF PERIOD	40	36	107	—	—	—
CASH AND EQUIVALENTS AT END OF PERIOD	$ —	$ 40	$ 36	$ —	$ —	$ —

See accompanying notes.

WCI
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(millions)

	Common Stock	Paid-In Capital	Retained Earnings (Accumulated Deficit)	Due From TW Companies, net	Reciprocal Interest in TW Companies Stock	Shareholders' Equity
BALANCE AT DECEMBER 31, 1999	$1	$ 9,926	$ 833	$(1,437)	$(586)	$ 8,737
Net income			44			44
Foreign currency translation adjustments			(70)			(70)
Unrealized losses on securities, net of $3 million tax benefit			(5)			(5)
Realized and unrealized gains on derivative financial instruments, net of $3 million tax expense			4			4
Comprehensive loss			(27)			(27)
Decrease in stock option distribution liability to TW Companies			221			221
Dividends			(702)			(702)
Transfers to TW Companies, net				538		538
Other		5	4			9
BALANCE AT DECEMBER 31, 2000	1	9,931	329	(899)	(586)	8,776
Net loss			(2,259)			(2,259)
Foreign currency translation adjustments			(17)			(17)
Unrealized losses on securities, net of tax benefit			(1)			(1)
Realized and unrealized gains on derivative financial instruments, net of tax expense			1			1
Comprehensive loss			(2,276)			(2,276)
Increase in stock option distribution liability to TW Companies			(17)			(17)
Dividends			(6)			(6)
Transfers to TW Companies, net				715		715
Allocation of a portion of the purchase of the America Online-Time Warner merger		50,231				50,231
Other			1			1
BALANCE AT DECEMBER 31, 2001	1	60,162	(1,969)	(184)	(586)	57,424
Reallocation of goodwill among AOL Time Warner segments upon adoption of FAS 142		(10,815)				(10,815)
Net loss			(21,001)			(21,001)
Foreign currency translation adjustments			111			111
Unrealized gains on securities, net of $1 million tax provision(a)			1			1
Realized and unrealized losses on derivative financial instruments, net of $7 million tax benefit			(10)			(10)
Unfunded accumulated benefit obligation, net of $47 million income tax benefit			(70)			(70)
Other			4			4
Comprehensive loss			(20,965)			(20,965)
Decrease in stock option distribution liability to TW Companies			259			259
Dividends			(402)			(402)
Transfers to TW Companies, net				503		503
Dilution of interest in Time Warner Entertainment Company, L.P. (net of $146 million income tax impact)			(219)			(219)
Other		205	1			206
BALANCE AT DECEMBER 31, 2002	$1	$ 49,552	$(23,295)	$ 319	$(586)	$ 25,991

See accompanying notes.

ATC
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(millions)

	Common Stock	Paid-In Capital	Retained Earnings (Accumulated Deficit)	Due From TW Companies, net	Reciprocal Interest in TW Companies Stock	Shareholders' Equity
BALANCE AT DECEMBER 31, 1999	$1	$ 2,338	$ 172	$ (38)	$(336)	$ 2,137
Net income			84			84
Foreign currency translation adjustments			(18)			(18)
Unrealized losses on securities, net of $6 million tax benefit			(10)			(10)
Realized and unrealized gains on derivative financial instruments, net of $1 million tax expense			2			2
Comprehensive income			58			58
Decrease in stock option distribution liability to TW Companies			152			152
Transfers to TW Companies, net				(279)		(279)
Other	—	3	4			7
BALANCE AT DECEMBER 31, 2000	1	2,341	386	(317)	(336)	2,075
Net loss			(1,033)			(1,033)
Foreign currency translation adjustments						
Unrealized losses on securities, net of $1 million tax benefit			(1)			(1)
Comprehensive loss			(1,034)			(1,034)
Increase in stock option distribution liability to TW Companies			(12)			(12)
Transfers to TW Companies, net				(126)		(126)
Allocation of a portion of the purchase of the America Online-Time Warner merger		27,432				27,432
Other	—		3			3
BALANCE AT DECEMBER 31, 2001	1	29,773	(657)	(443)	(336)	28,338
Reallocation of goodwill among AOL Time Warner segments upon adoption of FAS 142		(3,512)				(3,512)
Net income			(10,312)			(10,312)
Foreign currency translation adjustments			10			10
Unrealized gains on securities, net of $1 million tax provision(a)			2			2
Realized and unrealized losses on derivative financial instruments, net of $2 million tax benefit			(3)			(3)
Unfunded accumulated benefit obligation, net of $30 million income tax benefit			(44)			(44)
Other			2			2
Comprehensive loss			(10,345)			(10,345)
Increase in stock option distribution liability to TW Companies			178			178
Transfers to TW Companies, net				505		505
Dilution of interest in Time Warner Entertainment Company, L.P. (net of $96 million income tax impact)			(144)			(144)
Other	—	2	(2)			—
BALANCE AT DECEMBER 31, 2002	$1	$26,263	$(10,970)	$ 62	$(336)	$ 15,020

See accompanying notes.

TWE GENERAL PARTNERS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business and Basis of Presentation

Description of Business

On June 30, 1992, thirteen direct or indirect subsidiaries of Time Warner Companies, Inc. ("TW Companies") contributed the assets and liabilities or the rights to the cash flows of substantially all of TW Companies' Filmed Entertainment, Networks and Cable businesses to Time Warner Entertainment Company, L.P., a Delaware limited partnership ("TWE"), for general partnership interests, and each general partner guaranteed a pro rata portion of substantially all of TWE's debt and accrued interest based on the relative fair value of the net assets each contributed to TWE (the "General Partner Guarantees," see Note 9). Since then, eleven of the thirteen original general partners have been merged or dissolved into the other two. Warner Communications Inc. ("WCI") and American Television and Communications Corporation ("ATC") are the two remaining general partners of TWE. They have succeeded to the general partnership interests and have assumed the General Partner Guarantees of the eleven former general partners. WCI, ATC and, where appropriate, the former general partners are referred to herein as the "General Partners."

WCI conducts substantially all of TW Companies' music operations, including interests in recorded music, music publishing and CD and DVD manufacturing. These music operations include copyrighted music from many of the world's leading recording artists that is produced and distributed by a family of established record labels such as Warner Bros. Records, Atlantic Records, Elektra Entertainment and Warner Music International. In addition, WCI has investments in TWE, TW Companies, IPC Group Limited, Turner Broadcasting System, Inc. ("TBS") and Time Warner Telecom Inc. ("Time Warner Telecom"). ATC does not conduct operations independent of its ownership interests in TWE and certain other investments, including investments in TW Companies, TBS and Time Warner Telecom.

On January 11, 2001, America Online, Inc. ("America Online") and Time Warner Inc. ("Time Warner") merged to form AOL Time Warner Inc. ("AOL Time Warner"), the world's leading media and entertainment company (the "Merger"). As a result of the Merger, America Online and Time Warner each became a wholly owned subsidiary of AOL Time Warner, and WCI and ATC each became an indirect, wholly owned subsidiary of AOL Time Warner.

Basis of Presentation

America Online-Time Warner Merger

The Merger has been accounted for by AOL Time Warner as an acquisition of Time Warner under the purchase method of accounting for business combinations. Under the purchase method of accounting, the cost of approximately $147 billion to acquire Time Warner, including transaction costs, was allocated to its underlying net assets, including the net assets of the General Partners, based on their respective estimated fair values. The excess of the purchase price over the estimated fair values of the net assets acquired was recorded as goodwill. This allocation includes intangible assets for WCI, such as music catalogues and copyrights and brands and trademarks.

As a result of the Merger, WCI's 2000 historical operating results reflect reclassifications to conform to AOL Time Warner's financial statement presentation, as follows:

- Digital media results have been allocated to the business segments now responsible for managing those operations, including WCI's music operations;
- Income and losses related to investments accounted for using the equity method of accounting and gains and losses on the sale of investments have been reclassified from operating income (loss) to other income (expense), net; and

- Corporate services have been reclassified to selling, general and administrative costs as a reduction of operating income.

Investment in TWE

Prior to the change in ownership relating to the exercise of an option by AT&T Corp. ("AT&T") which is discussed below, the General Partners in the aggregate held 63.27% of the pro rata priority capital ("Series A Capital") and residual equity capital ("Residual Capital") of TWE and 100% of the junior priority capital ("Series B Capital") of TWE. TW Companies held, directly or indirectly, 11.22% of the Series A Capital and Residual Capital limited partnership interests. The remaining 25.51% limited partnership interests in the Series A Capital and Residual Capital of TWE were held by MediaOne TWE Holdings, Inc., a subsidiary of AT&T. AT&T's interest in TWE was recently acquired by Comcast Corp. ("Comcast") upon consummation of the merger of Comcast and AT&T's broadband business in November 2002.

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%. This resulted in a decrease in WCI's and ATC's corresponding interest in the Series A Capital and Residual Capital of TWE of approximately 1.07% and 0.74%, respectively, to approximately 36.43% and 25.03%, respectively. Similarly, TW Companies' interest in the Series A Capital and Residual Capital of TWE decreased by approximately 0.32% to approximately 10.90%. In accordance with Staff Accounting Bulletin No. 51, "Accounting For Sales of Stock of a Subsidiary," WCI and ATC have reflected the pretax impact of the dilution of their interests in TWE of approximately $365 million and $240 million, respectively, as an adjustment to paid-in-capital (Note 5). During the third quarter of 2002, TW Companies' 10.90% interest in TWE was transferred to WCI and ATC, increasing WCI's and ATC's interests in the Series A and Residual Capital of TWE to 41.88% and 30.48%, respectively. In August 2002, AOL Time Warner and AT&T announced that they had agreed to restructure TWE. See Note 5 for additional discussion.

New Accounting Principles

Revenue Classification Changes

Reimbursement of "Out-of-Pocket" Expenses

In January 2002, the Financial Accounting Standards Board's ("FASB") Emerging Issues Task Force ("EITF") reached a consensus on 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 the General Partners in the first quarter of 2002 and requires retroactive restatement of all periods presented to reflect the new accounting provisions. This change in revenue classification only impacts WCI. As a result of applying the guidance of EITF 01-14, WCI's revenues and costs presented herein were retroactively increased by an equal amount of approximately $152 million in 2001 and approximately $155 million in 2000.

Emerging Issues Task Force Issue No. 01-09

In April 2001, the EITF reached a final consensus on EITF Issue No. 00-25, "Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor's Products," which was later codified along with other similar issues, into EITF Issue No. 01-09, "Accounting for Consideration Given by a Vendor to a Customer or a Reseller of the Vendor's Products" ("EITF 01-09"). EITF 01-09 was effective for the General Partners in the first quarter of 2002 and requires retroactive restatement of all periods presented to reflect the new accounting provisions. EITF 01-09 clarifies the income statement classification of costs incurred by a vendor in connection with the reseller's purchase or promotion of the vendor's products, resulting in certain

cooperative advertising and product placement costs previously classified as selling expenses to be reflected as a reduction of revenues earned from that activity. This change in revenue classification only impacts WCI. As a result of applying the provisions of EITF 01-09, WCI's revenues and costs presented herein were retroactively reduced by an equal amount of $45 million in 2001 and approximately $35 million in 2000.

Securities and Exchange Commission Staff Accounting Bulletin No. 101

In the fourth quarter of 2000, WCI adopted Securities and Exchange Commission Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB 101"). SAB 101 clarifies certain existing accounting principles for the timing of revenue recognition and the classification of revenues in financial statements. While WCI's existing revenue recognition policies were consistent with the provisions of SAB 101, the new rules resulted in changes as to how revenues from certain transactions are classified. As a result of applying the provisions of SAB 101, WCI's revenues and costs were increased by an equal amount of $135 million for 2000.

New Accounting Standard for Goodwill and Other Intangible Assets

In July 2001, the FASB issued Statement of Financial Accounting Standards ("Statement") No. 141, "Business Combinations" and Statement No. 142 "Goodwill and Other Intangible Assets" ("FAS 142"). These standards change the accounting for business combinations by, among other things, prohibiting the prospective use of pooling-of-interests accounting. In addition, FAS 142 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, WCI and ATC completed its initial impairment review and recorded non-cash pretax charges of $18.962 billion and $9.603 billion, respectively, 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 financial statements.

During the fourth quarter of 2002, WCI and ATC performed their annual impairment reviews for goodwill and other intangible assets. As a result, WCI recorded an additional non-cash charge of $1.499 billion which is recorded as a component of operating income in the accompanying consolidated statement of operations. The impairment charges are non-cash in nature and do not affect the General Partners' liquidity. See Note 3 to the accompanying consolidated financial statements for additional discussion.

Variable Interest Entities

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 SPEs) to 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 General Partners' during the third quarter of 2003. Although the General Partners have not completed their review, the General Partners anticipate that the adoption of FIN 46 will not have a significant impact on their consolidated financial statements.

Stock-Based Compensation

In December 2002, the FASB issued Statement No. 148, "Accounting for Stock-Based Compensation, Transition and Disclosure" ("FAS 148"). FAS 148 provides alternative methods of transition for a voluntary

change to the fair value based method of accounting for stock-based employee compensation. FAS 148 also requires that disclosures of the pro forma effect of using the fair value method of accounting for stock-based employee compensation be displayed more prominently and in a tabular format. Additionally, FAS 148 requires disclosure of the pro forma effect in interim financial statements. The transition and annual disclosure requirements of FAS 148 are effective for fiscal years ended after December 15, 2002. The interim disclosure requirements of FAS 148 are effective for interim periods beginning after December 15, 2002. The adoption of the provisions of FAS 148 did not have an impact on the General Partners' consolidated financial statements. However, the General Partners have modified its disclosures as required.

Exit and Disposal Activities

In July 2002, the FASB issued Statement No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("FAS 146"). FAS 146 nullifies the accounting for restructuring costs provided in EITF Issue No. 94-3 "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." FAS 146 requires that a liability associated with an exit or disposal activity be recognized and measured at fair value only when incurred. In addition, one-time termination benefits should be recognized over the period employees will render service, if the service period required is beyond a minimum retention period. FAS 146 is effective for exit or disposal activities initiated after December 31, 2002. Management does not expect that the application of the provisions of FAS 146 will have a material impact on the General Partners' consolidated financial statements.

Multiple Element Arrangements

In November 2002, the EITF reached a consensus on EITF No. 00-21, "Revenue Arrangements with Multiple Deliverables" ("EITF 00-21"). EITF 00-21 provides guidance on how to account for arrangements that involve the delivery or performance of multiple products, services and/or rights to use assets. The provisions of EITF 00-21 will apply to revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The General Partners believe that its current accounting is consistent with the provisions of EITF 00-21 and therefore does not expect that the application of the provisions of EITF 00-21 will have a material impact on the General Partners' consolidated financial statements.

Consideration Received from a Vendor by a Customer

In November 2002, the EITF reached a consensus on EITF No. 02-16, "Accounting for Consideration Received from a Vendor by a Customer" ("EITF 02-16"). EITF 02-16 provides guidance as to how customers should account for cash consideration received from a vendor. EITF 02-16 presumes that cash received from a vendor represents a reduction of the prices of the vendor's products or services, unless the cash received represents a payment for assets or services provided to the vendor or a reimbursement of costs incurred by the customer to sell the vendor's products. The provisions of EITF 02-16 will apply to all agreements entered into or modified after December 31, 2002. Management does not expect the provisions of EITF 02-16 to have a material impact on the General Partners' consolidated financial statements.

Guarantees

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45 requires that a liability be recorded in the guarantor's balance sheet upon issuance of a guarantee. In addition, FIN 45 requires disclosures about the guarantees that an entity has issued, including a reconciliation of changes in the entity's product warranty liabilities. The initial recognition and initial measurement provisions of FIN 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002, irrespective of the guarantor's fiscal year-end. As the General Partners' guarantee of $3.3 billion of TWE's debt (which is discussed in further detail in Note 9) was issued prior to December 31, 2002, the initial

recognition and initial measurement provisions of FIN 45 are not expected to have a material impact on the General Partners' consolidated financial statements. The disclosure requirements of FIN 45 are effective for financial statements of interim or annual periods ending after December 15, 2002; therefore, the General Partners have modified its disclosures herein as required.

Asset Retirement Obligations

In July 2001, the FASB issued Statement No. 143, "Accounting for Asset Retirement Obligation" ("FAS 143"). FAS 143 addresses the accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. FAS 143 became effective for the General Partners in the first quarter of 2002. The provisions of FAS 143 did not have a material impact on WCI's or ATC's consolidated financial statements.

Impairment or Disposal of Long-Lived Assets

In August 2001, the FASB issued Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("FAS 144"). FAS 144 clarifies the accounting for the impairment of long-lived assets and for long-lived assets to be disposed of, including the disposal of business segments and major lines of business. FAS 144 became effective for the General Partners in the first quarter of 2002. The provisions of FAS 144 did not have a material impact on the General Partners' consolidated financial statements.

Transfers and Servicing of Financial Assets and Extinguishments of Liabilities

In September 2000, the FASB issued Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities — a Replacement of FASB Statement No. 125" ("FAS 140"). FAS 140 revises the criteria for accounting for securitizations and other transfers of financial assets and collateral. In addition, FAS 140 requires certain additional disclosures. Except for the new disclosure provisions, which were effective for the year ended December 31, 2000, FAS 140 was effective for the transfer of financial assets occurring after March 31, 2001. The provisions of FAS 140 did not have a material impact on General Partners' consolidated financial statements.

Summary of Significant Accounting Policies

Basis of Consolidation and Accounting for Investments

The consolidated financial statements include 100% of the assets, liabilities, revenues, expenses, income, loss and cash flows of each General Partner and all companies in which the General Partner has a controlling voting interest ("subsidiaries"), as if the General Partner and its subsidiaries were a single company. Intercompany accounts and transactions between the consolidated companies have been eliminated.

WCI's fiscal year-end is December 31, however certain foreign locations are on a month lag. In addition, during 2002, WCI's domestic music operations changed its fiscal year end from December 31 to November 30 in order to be consistent with its foreign operations which had previously been operating under a November fiscal year end. The impact of this change was not material to WCI's overall financial results. To the extent a significant and or unusual transaction or event occurs during the one month lag period, it would be accounted for within WCI's year-end financial statements (See Note 4).

Investments in TWE, and certain other companies in which the General Partners individually have significant influence, but less than a controlling voting interest, are accounted for using the equity method of accounting. This is generally presumed to exist when the General Partners individually own between 20% and 50% of the investee. Under the equity method, only the General Partners' investment in and amounts due to and from the equity investee are included in the consolidated balance sheet; only its share of the investee's earnings is included in the consolidated operating results; and only the dividends, cash distributions, loans or

other cash received from the investee, additional cash investments, loan repayments or other cash paid to the investee, are included in the consolidated cash flows. In circumstances where the General Partner's ownership in an investee is in the form of a preferred security or otherwise senior security, WCI's and ATC's share in the investee's income or loss is determined by applying the equity method of accounting using the "hypothetical-liquidation-at-book-value" method. WCI and ATC use the hypothetical-liquidation-at-book-value method to determine the earnings or losses attributable to its investment in TWE. Under the hypothetical-liquidation-at-book-value method, the investor's share of earnings or losses is determined based on changes in the investor's claim in the net book value of the investee. Additionally, the carrying value of investments accounted for using the equity method of accounting are adjusted downward to reflect any other-than-temporary declines in value.

Investments in companies in which the General Partners do not have a controlling interest, or an ownership and voting interest so large as to exert significant influence, are accounted for as available-for-sale securities at market value if the investments are publicly traded and there are no resale restrictions greater than one year. If there are resale restrictions greater than one year, or if the investment is not publicly traded, then the investment is accounted for at cost. Unrealized gains and losses on investments accounted for at market value are reported, net of tax, in the accompanying consolidated statement of shareholders' equity as a component of accumulated other comprehensive income (loss) until the investment is sold, at which time the realized gain or loss is included in income. Dividends and other distributions of earnings from both market-value investments and investments accounted for at cost are included in income when declared.

The effect of any changes in each General Partner's ownership interests resulting from the issuance of equity capital by consolidated subsidiaries or equity investees to unaffiliated parties is included as a component of shareholders' equity.

WCI, through AOL Time Warner has certain accounts receivable facilities that provide for the accelerated receipt of cash on available accounts receivables and licensing contracts. These securitization transactions are accounted for as a sale in accordance with FAS 140 because WCI relinquished control of the receivables. Since WCI has relinquished control over these receivables and does not control the Qualifying SPE that holds the receivables, the amounts held in these securitization facilities are not included in the consolidated financial statements of WCI.

Investment Impairments

The General Partners' investments are comprised of fair value investments, including available-for-sale investments, investments accounted for using the cost method of accounting and investments accounted for using the equity method of accounting. A judgmental aspect of accounting for investments involves determining whether an other-than-temporary decline in value of the investment has been sustained. If it has been determined that an investment has sustained an other-than-temporary decline in its value, the investment is written down to its fair value, by a charge to earnings. Such evaluation is dependent on the specific facts and circumstances. Factors that are considered by the General Partners in determining whether an other-than-temporary decline in value has occurred include: the market value of the security in relation to its cost basis; the financial condition of the investee; and the intent and ability to retain the investment for a sufficient period of time to allow for recovery in the market value of the investment.

In evaluating the factors above for available-for-sale securities, management presumes a decline in value to be other-than-temporary if the quoted market price of the security is 20% or more below the investment's cost basis for a period of six months or more (the "20% criteria") or the quoted market price of the security is 50% or more below the security's cost basis at any quarter end (the "50% criteria"). However, the presumption of an other-than-temporary decline in these instances may be overcome if there is persuasive evidence indicating that the decline is temporary in nature (e.g., strong operating performance of investee, historical volatility of investee, etc.). Additionally, there may be instances where impairment losses are

recognized even if the 20% and 50% criteria are not satisfied (e.g., plan to sell the security in the near term and the fair value is below WCI's or ATC's cost basis).

For investments accounted for using the cost or equity method of accounting, management evaluates information (e.g., budgets, business plans, financial statements, etc.) in addition to quoted market price, if any, in determining whether an other-than-temporary decline in value exists. Factors indicative of an other-than- temporary decline include recurring operating losses, credit defaults and subsequent rounds of financings at an amount below the cost basis of the investment. This list is not all inclusive and management weighs all quantitative and qualitative factors in determining if an other-than-temporary decline in value of an investment has occurred.

Business Combinations

Business combinations have been accounted for using the purchase method of accounting. Business combinations which have been accounted for under the purchase method of accounting include the results of operations of the acquired business from the effective date of acquisition. The cost to acquire companies, including transaction costs, have been allocated to the underlying net assets of the acquired company in proportion to their respective fair values. Any excess of the purchase price over estimated fair values of the net assets acquired has been recorded as goodwill. In certain purchase business combinations, the General Partners may review the operations of the acquired company and implement plans to restructure its operations. As a result, the General Partners may accrue a liability related to these restructuring plans using the criteria prescribed in EITF Issue No. 95-3, "Recognition of Liabilities in Connection with a Purchase Business Combination." The impact of accruing these liabilities in connection with a purchase business combination is that the related cost is reflected as a liability assumed in the acquisition and results in additional goodwill as opposed to being included as a charge in the current period determination of income (Note 4). The application of the purchase method of accounting requires significant judgments and assumptions, which is further discussed in Critical Accounting Policies.

Foreign Currency Translation

The financial position and operating results of substantially all foreign operations are consolidated using the local currency as the functional currency. Local currency assets and liabilities are translated at the rates of exchange on the balance sheet date, and local currency revenues and expenses are translated at average rates of exchange during the period. Resulting translation gains or losses, which have not been material, are included in the accompanying consolidated statement of shareholders' equity as a component of accumulated other comprehensive income (loss).

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the amounts reported in the financial statements and footnotes thereto. Actual results could differ from those estimates.

Significant estimates inherent in the preparation of the accompanying consolidated financial statements include management's forecast of anticipated revenues and cash flows from investments and the sale of future and existing music-related products in order to evaluate the ultimate recoverability of accounts receivable, artist advances and investments recorded as assets in the WCI consolidated balance sheet. Accounts receivable and sales in the music industry are subject to customers' rights to return unsold items. In addition, significant estimates have been used in accounting for business combinations accounted for using the purchase method of accounting.

Management periodically reviews such estimates and it is reasonably possible that management's assessment of recoverability of accounts receivable, individual artist advances and investments may change based on actual results and other factors.

Revenues and Costs

In accordance with industry practice, certain products (such as compact discs, DVDs and cassettes) are sold to customers with the right to return unsold items. Revenues from such sales are recognized when the products are shipped based on gross sales less a provision for future estimated returns.

Inventories of WCI consist of cassettes, DVDs, compact discs and related music and music publishing products. Inventories of cassettes, DVDs and compact discs are stated at the lower of cost or estimated realizable value. Cost is determined using first-in, first-out and average cost methods. Returned goods included in inventory are valued at estimated realizable value, but not in excess of cost.

Multiple-Element Arrangements

WCI or TWE enters into transactions where it is purchasing a product, service or making an investment in a vendor and at the same time it is negotiating a contract for the sale of advertising to the vendor. For example, when negotiating programming arrangements with cable networks, TWE will, at times, simultaneously negotiate for the sale of advertising to the cable network. This arrangement may be documented in one contract or may be documented in two separate contracts; whether there are one or two contracts, these arrangements are negotiated simultaneously. In accounting for these arrangements, WCI or TWE looks to the guidance contained in the following authoritative literature.

- APB Opinion No. 29, "Accounting for Nonmonetary Transactions" (APB 29); and
- EITF 01-09, "Accounting for Consideration Given by a Vendor to a Customer" (EITF 01-09).

WCI or TWE measures these transactions based on the respective fair values of the goods or services purchased and the goods or services sold. If WCI or TWE is unable to determine the fair value of one or more of the element(s) being purchased, then revenue recognition is limited to the total consideration received for the products or services sold less amounts paid. The accounting for these transactions requires significant judgments and estimates, which are further discussed in Critical Accounting Policies.

Advertising

In accordance with AICPA SOP 93-7, "Reporting on Advertising Costs," advertising costs are expensed upon the first exhibition of the advertisement, except for certain direct-response advertising, for which the costs are capitalized and amortized over the expected period of future benefits. Direct-response advertising principally consists of product promotional mailings, catalogues and other promotional costs incurred in WCI's direct-marketing businesses. Deferred advertising costs are generally amortized using the straight-line method over a period of twelve months or less subsequent to the promotional event. Deferred advertising costs for WCI amounted to $5 million at December 31, 2002 and $3 million at December 31, 2001. Advertising expense for WCI amounted to $259 million in 2002, $257 million in 2001 and $244 million in 2000.

Cash Equivalents

Cash equivalents consist of commercial paper and other investments that are readily convertible into cash and have original maturities of three months or less. Cash equivalents are carried at cost, which approximates fair value.

Derivative and Financial Instruments

Effective January 1, 2001, WCI adopted FASB Statement No. 133, as amended by FASB Statement No. 138, "Accounting for Derivative Instruments and Hedging Activities" ("FAS 133"). FAS 133 requires that all derivative instruments be recognized on the balance sheet at fair value. In addition, FAS 133 provides that for derivative instruments that qualify for hedge accounting, changes in the fair value will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in shareholders' equity as a component of accumulated other comprehensive income (loss) until the hedged item is recognized in earnings, depending on whether the derivative is being used to hedge changes in fair value or cash flows. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. The adoption of FAS 133 did not have a material effect on WCI's financial statements (Note 13).

The carrying value of WCI's financial instruments approximates fair value, except for certain differences relating to investments accounted for at cost and other financial instruments that are not significant. The fair value of financial instruments, such as investments, is generally determined by reference to market values resulting from trading on a national securities exchange or in an over-the-counter market. In cases where quoted market prices are not available, fair value is based on estimates using present value or other valuation techniques.

Property, Plant and Equipment

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

The General Partners periodically review the carrying value of their long-lived assets, including property, plant and equipment, whenever events or changes in circumstances indicate that the carrying value may not be recoverable. To the extent fair value of a long-lived asset, determined based upon the estimated future cash inflows attributable to the assets, less estimated future cash outflows, are less than the carrying amount, an impairment loss is recognized.

Goodwill and Other Intangible Assets

As a creator and distributor of entertainment copyrights, WCI has a significant and growing number of intangible assets, including goodwill, music catalogues, contracts and copyrights. In accordance with generally accepted accounting principles, WCI does not recognize the fair value of internally generated intangible assets. Costs incurred to create and produce copyrighted product, such as compact discs, DVDs and cassettes, generally are either expensed as incurred, or capitalized as tangible assets as in the case of cash advances and inventoriable product costs. However, accounting recognition is not given to any increasing asset value that may be associated with the collection of the underlying copyrighted material. Additionally, costs incurred to create or extend brands generally result in losses over an extended development period and are recognized as a reduction of income as incurred, while any corresponding brand value created is not recognized as an intangible asset in the consolidated balance sheet. However, intangible assets acquired in business combinations accounted for under the purchase method of accounting are recorded at fair value on the General Partners' consolidated balance sheet. As of January 1, 2001, in connection with the Merger, the intangible assets of WCI, including the significant value of intentionally generated intangible assets, were recorded at fair value on WCI's consolidated balance sheet. However, increases in the fair value, if any, or the creation of intangible assets related to WCI businesses subsequent to the consummation of the Merger, are not reflected on WCI's consolidated balance sheet.

As discussed previously, FAS 142, which became effective on January 1, 2002, required that goodwill and certain other intangible assets deemed to have an indefinite useful life cease amortizing. As a result, a

substantial portion of the General Partners' goodwill and intangible assets, ceased amortizing. However, WCI continues to amortize intangible assets that are deemed to have a finite useful life, including music catalogues and copyrights, which are amortized over periods up to 20 years. Amortization of goodwill and intangible assets for WCI was $175 million in 2002, $836 million in 2001 and $241 million in 2000. Accumulated amortization of goodwill and intangible assets for WCI was $396 billion at December 31, 2002 and $836 million at December 31, 2001. Amortization of goodwill and intangible assets for ATC amounted to $11 million in 2001, all of which related to the amortization of goodwill resulting from the Merger. There was no amortization of goodwill and intangible assets for ATC in 2002 and 2000. Accumulated amortization of goodwill and intangible assets for ATC at was $11 million at December 31, 2002 and 2001.

The General Partners periodically review the carrying value of acquired intangible assets, including goodwill, to determine whether impairment may exist. FAS 142 requires that goodwill and certain intangible assets be assessed for impairment using fair value measurement techniques. Specifically, goodwill impairment is determined using a two-step process. The first step of the goodwill impairment test is used to identify potential impairment by comparing the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired and the second step of the impairment test is unnecessary. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any. The second of the goodwill impairment test compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. That is, the fair value of the reporting unit is allocated to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid to acquire the reporting unit. The impairment test for other intangible assets not subject to amortization consists of a comparison of the fair value of the intangible asset with its carrying value. If the carrying value of the intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. For intangible assets subject to amortization, to the extent the fair value of the intangible asset, determined based upon the estimated future cash inflows attributable to the asset, less estimated future cash outflows, are less than carrying amount, an impairment loss is recognized. The determination of impairment of goodwill and other intangible assets requires significant judgments and estimates, which is further discussed under Critical Accounting Policies.

Income Taxes

The domestic operating results of the General Partners are included in the consolidated U.S. federal, state and local income tax returns of WCI or subsidiaries of AOL Time Warner Inc. The foreign operations of WCI are subject to taxation by foreign jurisdictions. Both domestic and foreign income tax provisions are reflected in the consolidated statements of operations of the General Partners on a stand-alone basis consistent with the liability method prescribed by FASB Statement No. 109, "Accounting for Income Taxes." Under the liability method, deferred income taxes reflect the tax effect of net operating loss and investment carryforwards and the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial statement and income tax purposes, as determined under enacted tax laws and rates. The financial effect of changes in tax laws or rates is accounted for in the period of enactment. The subsequent realization of tax carryforwards acquired in acquisitions is accounted for as a reduction of goodwill.

Under a tax-sharing agreement between the General Partners and AOL Time Warner, each General Partner pays to, or receives from, AOL Time Warner amounts equal to the total domestic income taxes, or tax benefits, provided by, or attributable to, the partner. Accordingly, no domestic income tax balances are reflected in the consolidated balance sheets of the General Partners, except for amounts related to certain

book/tax differences created as a result of purchase accounting, and for certain items reflected in shareholders' equity.

As a Delaware limited partnership, TWE is generally not subject to U.S. federal and state income taxation. However, certain of TWE's operations are conducted by subsidiary corporations that are subject to domestic or foreign taxation. Income tax expense for each of the General Partners includes all income taxes related to its allocable share of partnership income and its equity in the income tax expense of corporate subsidiaries of TWE.

Stock-Based Compensation

AOL Time Warner has various stock option plans under which it may grant options to purchase AOL Time Warner common stock to employees of AOL Time Warner and WCI, both of which follow the provisions of FASB Statement No. 123, "Accounting for Stock-Based Compensation" ("FAS 123"). The provisions of FAS 123 allow companies to either expense the estimated fair value of stock options or to continue to follow the intrinsic value method set forth in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), but disclose the pro forma effects on net income (loss) had the fair value of the options been expensed. AOL Time Warner and WCI have elected to continue to apply APB 25 in accounting for stock option plans (Note 11).

In accordance with APB 25 and related interpretations, compensation expense for stock options is recognized in income based on the excess, if any, of the quoted market price of the stock at the grant date of the award or other measurement date over the amount an employee must pay to acquire the stock. Generally, the exercise price for stock options granted to employees of WCI equals or exceeds the fair market value of AOL Time Warner common stock at the date of grant, thereby resulting in no recognition of compensation expense by AOL Time Warner, nor charged to WCI. For awards that generate compensation expense as defined under APB 25, WCI calculates the amount of compensation expense and recognizes the expense over the vesting period of the awards.

As previously discussed, in 2002 the FASB issued FAS 148. FAS 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. FAS 148 also requires that disclosures of the pro forma effect of using the fair value method of accounting for stock-based employee compensation be displayed more prominently and in a tabular format. Additionally, FAS 148 requires disclosure of the pro forma effect in interim financial statements. The transition and annual disclosure requirements of FAS 148 are effective for fiscal years ended after December 15, 2002. The interim disclosure requirements of FAS 148 are effective for interim periods beginning after December 15, 2002.

Had compensation cost for AOL Time Warner's stock option plans been determined based on the fair value method set forth under FAS 123, WCI's net income (loss) would have been changed to the pro forma amounts indicated below:

	Years Ended December 31,		
	2002	2001	2000
		(millions)	
Net income (loss), as reported	$(21,001)	$(2,259)	$ 44
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards net of related tax effects	(90)	(33)	(41)
Pro forma net income (loss)	$(21,091)	$(2,292)	$ 3

Comprehensive Income (Loss)

Comprehensive income (loss), which is reported on the accompanying consolidated statement of shareholders' equity as a component of accumulated other comprehensive income (loss), consists of net income and other gains and losses affecting shareholders' equity that, under accounting principles generally accepted in the U.S., are excluded from net income (loss). For the General Partners, such items consist primarily of unrealized gains and losses on marketable equity investments, gains and losses on certain derivative financial instruments, changes in the unfunded accumulated benefit obligation of the General Partners' pension plan and foreign currency translation gains and losses.

The following summary sets forth the components of WCI's other comprehensive income (loss) accumulated in shareholders' equity:

	Foreign Currency Translation Gains (Losses)	Net Unrealized Gains on Securities	Derivative Financial Instrument Gains (Losses)	Unfunded Accumulated Benefit Obligation	Other	Accumulated Other Comprehensive Loss
			(millions)			
Balance at December 31, 2001	$(195)	$12	$ 8	$ —	$ —	$(175)
2002 activity	111	1	(10)	(70)	4	36
Balance at December 31, 2002	$ (84)	$13	$ (2)	$(70)	$ 4	$(139)

Reclassifications

Certain reclassifications have been made to the prior years' consolidated financial information to conform to the 2002 presentation.

2. WORD ENTERTAINMENT ACQUISITION

In January 2002, WCI completed its purchase of Word Entertainment ("Word") from Gaylord Entertainment Company for approximately $84 million in cash. Word is a leader in the multi-faceted contemporary Christian music industry with over 30 active artists on several record labels, approximately 45 songwriters under contract and a catalog containing more than 75,000 masters. The acquisition was accounted for using the purchase method of accounting for business combinations. As a result of the subsequent purchase price allocation, approximately $10 million has been allocated to copyrights, approximately $20 million has been allocated to music catalogues, $30 million to goodwill and the remaining $24 million of the purchase price has been allocated to the underlying tangible net assets of Word. As discussed in further detail in Note 3, during the fourth quarter of 2002, WCI recorded a non-cash, pretax charge of $646 million related to goodwill impairment.

During the third quarter of 2002, WCI exchanged 20% of its interest in Word to Curb Records for non-cash consideration of equal value.

3. GOODWILL AND INTANGIBLE ASSETS

As discussed in Note 1, in January 2002, the General Partners adopted FAS 142, which requires companies to stop amortizing goodwill and certain intangible assets with an indefinite useful life. Instead, FAS 142 requires that goodwill and intangible assets deemed to have an indefinite useful life be reviewed for impairment upon adoption of FAS 142 (January 1, 2002) and annually thereafter.

Under FAS 142, goodwill impairment is deemed to exist if the net book value of a reporting unit exceeds its estimated fair value. For purposes of applying the provisions of FAS 142, both WCI and ATC are considered one reporting unit. This methodology differs from the General Partners' previous policy, as provided under accounting standards existing at that time, of using undiscounted cash flows on an enterprise-wide basis to determine if goodwill is recoverable.

Upon adoption of FAS 142 in the first quarter of 2002, WCI recorded an approximate $18.962 billion non-cash charge and ATC recorded an approximate $9.603 billion non-cash charge to reduce the carrying value of goodwill. Approximately $5 billion of WCI's charge related to its wholly owned music business, while the remaining approximate $14 billion of WCI's charge and all of ATC's charge were the result of goodwill impairment charges recorded at TWE and other AOL Time Warner consolidated subsidiaries, which are accounted for by the General Partners under the equity method of accounting. Such charges are nonoperational in nature and are reflected as a cumulative effect of accounting change in the accompanying consolidated statement of operations. In calculating the impairment charge, the fair value of WCI's music business and the reporting units underlying the General Partners' investments in TWE and certain AOL Time Warner consolidated subsidiaries accounted for under the equity method of accounting, were estimated using either a discounted cash flow methodology, market comparisons, recent comparable transactions or a combination thereof.

The FAS 142 goodwill impairment is associated entirely with goodwill resulting from the Merger. The amount of the impairment primarily reflects the overall market declines since the Merger was announced and valued for accounting purposes in January of 2000. Prior to performing the review for impairment, FAS 142 required that all goodwill deemed to be related to AOL Time Warner as a whole be assigned to all of AOL Time Warner's reporting units, including the reporting units of the acquirer. This differs from the previous accounting rules where goodwill was assigned only to the businesses of the company acquired. As a result, a portion of the goodwill generated in the Merger has been reallocated from WCI's music business and the reporting units underlying the General Partners' investments in TWE and certain AOL Time Warner consolidated subsidiaries accounted for under the equity method of accounting to other segments of AOL Time Warner.

During the fourth quarter of 2002, WCI and ATC performed their annual impairment reviews for goodwill and other intangible assets. As a result, WCI recorded an additional non-cash charge of approximately $1.499 billion which is recorded as a component of operating income in the accompanying consolidated statement of operations. The $1.499 billion charge at WCI includes a $646 million charge to reduce the carrying value of goodwill and a $853 million charge to reduce the carrying value of other intangible assets at WCI's music operations which reflects declining valuations in the music industry, primarily due to the negative effects of piracy.

In addition, the General Partners recognized a $1.572 billion charge at WCI and $1.146 billion charge at ATC relating to goodwill impairment charges at TWE due to decreasing valuations of TWE's cable systems as evidenced by the decline in the stock prices of comparable cable television companies. These charges are included in equity in pretax income (loss) of TWE in the accompanying consolidated statement of operations.

A summary of changes in WCI's goodwill during the year ended December 31, 2002 is as follows (millions):

	Goodwill				
	January 1, 2002[1]	Acquisitions & Adjustments[2]	Cumulative Effect of Accounting Change[3]	4th Quarter Impairment[4]	December 31, 2002
Total	$5,857	$(34)	$(4,796)	$(646)	$381

[1] Reflects the reallocation of $5.942 billion of goodwill to other segments of AOL Time Warner under FAS 142.

[2] Acquisitions relate to WCI's purchase price allocation for the acquisition of Word Entertainment.

[3] The impairment charge does not include approximately $14.2 billion related to goodwill impairments associated with investments accounted for under the equity method of accounting.

[4] The impairment charge does not include approximately $1.572 billion related to WCI's investment in TWE.

The impairment charges are non-cash in nature and do not affect the General Partners' liquidity.

WCI's intangible assets and related accumulated amortization consisted of the following (millions):

	As of December 31, 2002			As of December 31, 2001		
	Gross	Accumulated Amortization[1]	Net	Gross	Accumulated Amortization[1]	Net
Intangible assets subject to amortization:						
Music catalogues, copyrights and other intangible assets[2]	$3,194	$(323)	$2,871	$3,079	$(153)	$2,926
Intangible assets not subject to amortization:						
Brands and trademarks[2][3]	$ 847	$ (57)	$ 790	$1,700	$ (57)	$1,643

[1] Accumulated amortization for intangible assets not subject to amortization relates to amortization expense recognized prior to the adoption of FAS 142.

[2] Amount represents intangible assets related to WCI's music operations.

[3] The decrease in brands, trademarks and other intangible assets primarily relates to the impairment of brands and trademarks of WCI's music operations.

WCI recorded amortization expense of $175 million in 2002 compared to $836 million in 2001. Based on the current amount of intangible assets subject to amortization, the estimated amortization expense for each of the succeeding 5 years are as follows: 2003: $172 million; 2004: $172 million; 2005: $172 million; 2006: $158 million; and 2007: $158 million. As acquisitions and dispositions occur in the future and as purchase price allocations are finalized, these amounts may vary.

For the year ended December 31, 2002, WCI acquired the following intangible assets (in millions):

		Weighted Average Amortization Period
Music catalogues, copyrights and other intangible assets	$80	15 years

WCI's and ATC's 2001 and 2000 results do not reflect the provisions of FAS 142. Had WCI and ATC adopted FAS 142 on January 1, 2000, the net income (loss) would have been changed to the adjusted amounts indicated below:

	Year Ended December 31, 2001		Year Ended December 31, 2000	
	(millions)			
	WCI	ATC	WCI	ATC
As reported — historical basis	$(2,259)	$(1,033)	$ 44	$ 84
Add: Goodwill amortization	617	—	145	—
Add: Intangible amortization	—	—	—	—
Add: TWE goodwill and intangible amortization	1,600	1,099	315	216
Add: Equity investee goodwill amortization	366	258	10	—
Income tax impact	(808)	(543)	(130)	(86)
Adjusted	$ (484)	$ (219)	$ 384	$214

(a) Because goodwill is nondeductible for tax purposes, the income tax impact reflects only the ceasing of intangible amortization and equity investee goodwill amortization.

4. MERGER AND RESTRUCTURING COSTS

Merger Costs Capitalized as a Cost of Acquisition

In accordance with generally accepted accounting principles in the United States, WCI generally treats merger costs relating to business combinations accounted for using the purchase method of accounting as additional purchase price paid.

In connection with the Merger, WCI has reviewed its operations and implemented several plans to restructure its operations ("restructuring plans"). As part of the restructuring plans, WCI accrued an initial restructuring liability of approximately $312 million during the first quarter of 2001. WCI adjusted these restructuring liabilities downward by $3 million during 2001 as it refined its restructuring plans. The restructuring accruals relate to costs to exit and consolidate certain activities at WCI, as well as costs to terminate employees of WCI. Such amounts were recognized as liabilities assumed in the purchase business combination and, accordingly, resulted in additional goodwill being recorded in connection with the Merger.

Of the total restructuring accruals, $261 million related to work force reductions and represented employee termination benefits and relocation costs. The total number of employees initially identified to be involuntarily terminated or relocated approximated 2,500. As of December 31, 2002, all terminations and relocations had occurred. Because certain employees can defer receipt of termination benefits, cash payments may continue after the employee has been terminated. Termination payments of approximately $88 million and $52 million were made in 2002 and 2001, respectively. In addition, during 2002, there were non-cash reductions in the restructuring accrual of $40 million, as actual employee termination payments were less than amounts originally estimated. As of December 31, 2002, the remaining liability of approximately $81 million was primarily classified as a current liability in WCI's accompanying consolidated balance sheet.

The restructuring accrual also includes approximately $48 million associated with exiting certain activities. The restructuring accrual associated with exiting activities specifically includes incremental costs and contractual obligations for items such as leasehold termination payments and other facility exit costs incurred as a direct result of these plans, which will not have future benefits. Payments related to exiting activities were approximately $7 million in both 2002 and 2001, respectively. In addition, during 2002, there were non-cash reductions in the restructuring accrual associated with other exiting activities of approximately $10 million, as actual payments were less than originally estimated. As of December 31, 2002, the remaining

liability of $24 million was primarily classified as a long-term liability in WCI's accompanying consolidated balance sheet.

Selected information relating to the restructuring costs included in the allocation of the cost to acquire Time Warner follows (in millions):

	Employee Termination	Other Costs	Total
Initial accruals	$261	$ 48	$309
Cash paid — 2001	(52)	(7)	(59)
Restructuring liability as of December 31, 2001	209	41	250
Cash paid — 2002	(88)	(7)	(95)
Non-cash reductions[a] — 2002	(40)	(10)	(50)
Restructuring liability as of December 31, 2002	$ 81	$ 24	$105

[a] Non-cash reductions represent adjustments to the restructuring accrual, and a corresponding reduction in goodwill as actual costs related to employee terminations and other exit costs were less than originally estimated.

Restructuring Costs

During the year ended December 31, 2002, WCI incurred and accrued other restructuring costs of $8 million that related to various employee and contractual terminations, including certain contractual employee termination benefits. WCI has recorded approximately $20 million of restructuring costs (including $13 million incurred between the music operations' November 30 year-end and WCI's December 31, 2002 year-end), which were partially offset by the reversal of a previously recorded accrual of $12 million as a result of it no longer being probable that the related contractual employee termination benefits would be paid by WCI (Note 1).

Included in the restructuring charge was approximately $4 million related to work force reductions and represented employee termination benefits. The number of employees expected to be terminated was approximately 165. As of December 31, 2002, approximately 20 of the terminations had occurred. The remaining 145 terminations are expected to occur by the end of 2003. The severed employees principally related to WCI's U.S. and Canadian music distribution operations. The remaining $4 million primarily related to incremental costs and contractual termination obligations for items such as lease termination payments and other facility exit costs. As of December 31, 2002, $4 million has been paid against these accruals. The remaining $4 million is primarily classified as a current liability in the accompanying consolidated statement of operations.

	Employee Terminations	Exit Costs	Other Total
Initial Accruals	$16	$ 4	$20
Cash paid - 2002	(3)	(1)	(4)
Remaining liability as of December 31, 2002	$13	$ 3	$16

During 2001, the restructuring plans included approximately $37 million of merger costs, relating to the renegotiation of various contractual commitments, that were expensed as incurred and included in operating income (loss) in the accompanying consolidated statement of operations. Of the $37 million, $20 million related to employee termination benefits for several senior executives and $17 million related to additional costs related to merger initiatives. As of December 31, 2002, all of the $37 million had been paid. During 2000, WCI expensed approximately $18 million in merger-related costs related to the failed merger of the

global music operations of Time Warner and EMI Group plc. These costs are included in operating income (loss) on the accompanying consolidated statement of operations.

Selected information relating to the restructuring plans follows (in millions):

	Employee Termination	Other Exit Costs	Total
Initial accruals	$ 20	$ 17	$ 37
Cash paid — 2001	(4)	—	(4)
Restructuring liability as of December 31, 2001	16	17	33
Cash paid — 2002	(4)	(17)	(21)
Non-cash reductions[a] - 2002	(12)	—	(12)
Remaining liability as of December 31, 2002	$ 0	$ 0	$ 0

(a) Non-cash reductions represent adjustments to the restructuring accrual as actual costs related to employee terminations were less than originally estimated.

5. INVESTMENT IN TWE

The General Partners' investment in and amounts due to and from TWE at December 31, 2002 and 2001 consists of the following:

December 31, 2002	WCI	ATC
	(millions)	
Investment in TWE	$19,241	$13,380
Stock option related distributions due from TWE	5	3
Other net liabilities due to TWE, principally related to home video distribution	94	—
Total	$19,340	$13,383

December 31, 2001	WCI	ATC
	(millions)	
Investment in TWE	$36,490	$25,110
Stock option related distributions due from TWE	264	182
Other net liabilities due to TWE, principally related to home video distribution	80	—
Total	$36,834	$25,292

The General Partners' respective investments in TWE declined significantly during the year, primarily the result of the General Partners' share of TWE's $21.763 billion cumulative effect of an accounting change relating to the adoption of FAS 142 and a $2.355 billion impairment. In addition, upon the adoption of FAS 142, $6.857 billion of goodwill at TWE generated in the Merger was reallocated to other segments of AOL Time Warner thereby reducing TWE's net assets. For a more comprehensive description of the impact of these items on TWE, see the accompanying TWE consolidated financial statements.

Partnership Structure

TWE is a Delaware limited partnership that was capitalized on June 30, 1992 and currently owns and operates substantially all of the Filmed Entertainment-Warner Bros., Cable Networks-HBO and Cable businesses previously owned by the General Partners. Prior to the change in ownership relating to the exercise of an option by AT&T which is discussed below, the General Partners in the aggregate held 63.27% of the Series A Capital and Residual Capital of TWE and 100% of the Series B Capital of TWE. TW Companies, directly or indirectly, held 11.22% of the Series A Capital and Residual Capital limited partnership interests. The remaining 25.51% limited partnership interests in the Series A Capital and Residual Capital of TWE were held by MediaOne TWE Holdings, Inc., a subsidiary of AT&T. AT&T's interest in TWE acquired by Comcast upon consummation of the merger of Comcast and AT&T's broadband business in November 2002.

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%. This resulted in a decrease in WCI's and ATC's corresponding interest in the Series A Capital and Residual Capital of TWE of approximately 1.07% and 0.74%, respectively, to approximately 36.43% and 25.03%, respectively. Similarly, TW Companies' interest in the Series A Capital and Residual Capital decreased by approximately 0.32% to approximately 10.90%. In accordance with Staff Accounting Bulletin No. 51, "Accounting For Sales of Stock of a Subsidiary," WCI and ATC have reflected the pretax impact of the dilution of its interest in TWE of approximately $365 million and $240 million, respectively, as an adjustment to paid-in-capital. During the third quarter of 2002, TW Companies' 10.90% interest in TWE was transferred to WCI and ATC, increasing WCI's and ATC's interests in the Series A and Residual Capital of TWE to 41.88% and 30.48%, respectively.

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 restructuring will result in the following: (i) WCI will acquire complete ownership of TWE's content assets (including Warner Bros., Warner Bros. Library and Home Box Office, which will become separate, wholly owned subsidiaries of WCI); (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. The 1% direct interest and $2.4 billion preferred interest in TWE, as well as part of AOL Time Warner's ownership interest in WCI, will be held through ATC.

Based upon its 89.3% controlling voting interest in TWC Inc., AOL Time Warner will consolidate the results of TWC Inc. for accounting purposes. WCI will account for its interest in TWC Inc. under the equity method of accounting. ATC will account for its common and preferred interests in TWE at cost. 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 repay TWC Inc.'s 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.

Partnership Capital and Allocation of Income

Each partner's interest in TWE generally consists of the undistributed priority capital and residual equity amounts that were initially assigned to that partner, or its predecessor, based on the estimated fair value of the net assets each contributed to TWE ("Undistributed Contributed Capital"), plus, with respect to the priority capital interests only, any undistributed priority capital return. The priority capital return consists of net partnership income allocated to date in accordance with the provisions of the TWE partnership agreement and the right to be allocated additional partnership income which, together, provides for the various priority capital rates of return as specified in the following table. The sum of Undistributed Contributed Capital and the undistributed priority capital return is referred to herein as "Cumulative Priority Capital." Cumulative Priority Capital is not necessarily indicative of the fair value of the underlying priority capital interests, principally due to above-market rates of return on certain priority capital interests as compared to securities of comparable credit risk and maturity, such as the 13.25% rate of return on the Series B Capital interest owned 100% by the General Partners. Furthermore, the ultimate realization of Cumulative Priority Capital could be affected by the fair value of TWE, which is subject to fluctuation.

A summary of the priority of Undistributed Contributed Capital, the General Partner's ownership of Undistributed Contributed Capital and Cumulative Priority Capital at December 31, 2002 and priority capital rates of return thereon is as set forth below:

Priority of Undistributed Contributed Capital	Undistributed Contributed Capital[a]	Cumulative Priority Capital	Priority Capital Rates of Return[b]	% Owned by General Partners
	(billions)			
Series A Capital	$5.6	$22.0	13.00%	72.36%
Series B Capital	2.9[c]	11.4	13.25%	100.00%
Residual Capital	3.3[c]	3.3[d]	—[d]	72.36%

(a) Excludes partnership income or loss allocated thereto.

(b) To the extent income allocations are concurrently distributed, the priority capital rates of return on the Series A Capital and Series B Capital are 11.00% and 11.25%, respectively. The Undistributed Contributed Capital relating to the Series B Capital has priority over the priority returns on the Series A Capital.

(c) The Undistributed Contributed Capital relating to the Residual Capital has priority over the priority returns on the Series B Capital and the Series A Capital.

(d) Residual Capital is not entitled to stated priority rates of return and, as such, its Cumulative Priority Capital is equal to its Undistributed Contributed Capital. However, in the case of certain events such as the liquidation or dissolution of TWE, Residual Capital is entitled to any excess of the then fair value of the net assets of TWE over the aggregate amount of Cumulative Priority Capital and special tax allocations.

The Undistributed Contributed Capital is generally based on the fair value of the net assets that each partner initially contributed to the partnership. For purposes of allocating partnership income or loss to the partners, partnership income or loss is based on the fair value of the net assets contributed to the partnership and results in significantly less partnership income, or results in partnership losses, in contrast to the net income reported by TWE for financial statement purposes, which is also based on the historical cost of contributed net assets.

Under the TWE partnership agreement, partnership income, to the extent earned, is first allocated to the partners' capital accounts so that the economic burden of the income tax consequences of partnership operations is borne as though the partnership were taxed as a corporation ("special tax allocations"). After any special tax allocations, partnership income is allocated to the Series A Capital and Series B Capital, in order of priority, at rates of 13.00% and 13.25% per annum, respectively, and finally to the Residual Capital. Partnership losses generally are allocated first to eliminate prior allocations of partnership income to, and then

to reduce the Undistributed Contributed Capital of, the Residual Capital, Series B Capital and Series A Capital, in that order, and then to reduce any special tax allocations. To the extent partnership income is insufficient to satisfy all special allocations in a particular accounting period, the right to receive additional partnership income necessary to provide for the various priority capital rates of return is carried forward until satisfied out of future partnership income, including any partnership income that may result from any liquidation, sale or dissolution of TWE.

TWE reported a net loss of $21.219 billion and $1.032 billion for the years ended December 31, 2002 and 2001, respectively, and net income of $229 million for the year ended December 31, 2000. In 2002, this loss included a $21.763 billion non-cash charge related to the cumulative effect of an accounting change and a $2.355 billion impairment charge for goodwill, each of which was allocated from AOL Time Warner. In addition, in 2002 there was a $1.182 billion gain attributed to the minority partners of TWE in connection with the restructuring of the TWE-Advance/Newhouse Partnership ("TWE-A/N"). In 2000, this income included a $524 million non-cash charge related to the cumulative effect of an accounting charge. Because of the priority rights over allocations of income/loss and distributions of TWE held by the General Partners, $779 million of TWE's pretax loss for 2002 was allocated to the General Partners ($427 million to WCI and $352 million to ATC). For 2001, $681 million of TWE's pretax loss was allocated to the General Partners ($404 million to WCI and $277 million to ATC). For 2000, all of TWE's pretax income before cumulative effect of accounting change was allocated to the General Partners ($539 million to WCI and $371 million to ATC).

Capital Distributions

The assets and cash flows of TWE are restricted by the TWE partnership and credit agreements and are unavailable for use by the partners except through the payment of certain fees, reimbursements, cash distributions and loans, which are subject to limitations. Under AOL Time Warner's two senior unsecured long-term revolving bank credit agreements, TWE is permitted to incur additional indebtedness to make loans, advances, distributions and other cash payments to AOL Time Warner, subject to its individual compliance with the leverage ratio covenant contained therein.

At December 31, 2002 and 2001, the General Partners had recorded $8 million and $446 million, respectively, of stock option related distributions due from TWE, based on closing prices of AOL Time Warner common stock of $13.10 and $32.10, respectively. The General Partners are paid when the options are exercised. The General Partners also receive tax-related distributions from TWE on a current basis. During 2002, the General Partners received distributions from TWE in the amount of $497 million, consisting of $473 million of tax-related distributions and $24 million of stock option-related distributions. During 2001, the General Partners received distributions from TWE in the amount of $317 million, consisting of $53 million of tax-related distributions and $264 million of stock option-related distributions. During 2000, the General Partners received distributions from TWE in the amount of $1.003 billion, consisting of $765 million of tax-related distributions and $238 million of stock option-related distributions. Of such aggregate distributions, WCI received $294 million in 2002, $188 million in 2001 and $594 million in 2000, and ATC received $203 million in 2002, $129 million in 2001 and $409 million in 2000. In addition to the tax, stock option and General Partners' senior priority capital distributions, TWE may make other capital distributions to its partners that are also subject to certain limitations contained in the TWE partnership and credit agreements.

TWE GENERAL PARTNERS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Summarized Financial Information of TWE

Set forth below is summarized financial information of TWE.

	Years Ended December 31,		
	2002	2001	2000
		(millions)	
Operating Statement Information			
Revenues	$ 16,425	$14,342	$13,178
Operating income (loss)	308	(31)	1,722
Interest expense, net	(401)	(530)	(612)
Other expense, net	(357)	(346)	(228)
Minority interest income (expense)	(28)	36	82
Income (loss) before income taxes, discontinued operations and cumulative effect of an accounting change	(478)	(871)	964
Income (loss) before discontinued operations and cumulative effect of an accounting change	(635)	(998)	807
Income (loss) before cumulative effect of an accounting change	544	(1,032)	753
Net income (loss)	(21,219)	(1,032)	229

	Years Ended December 31,		
	2002	2001	2000
		(millions)	
Cash Flow Information			
Cash provided by operations	$ 4,012	$ 2,585	$ 2,576
Investments and acquisitions	(297)	(913)	(421)
Investments in available-for-sale securities	—	(18)	—
Capital expenditures from continuing operations	(1,689)	(1,604)	(1,512)
Investment proceeds	85	35	209
Borrowings	3,524	3,226	2,850
Debt repayments	(4,113)	(2,541)	(2,399)
Capital and other distributions from continuing operations	(527)	(359)	(1,048)
Increase (decrease) in cash and equivalents	762	(56)	(211)

	December 31,	
	2002	2001
	(millions)	
Balance Sheet Information		
Cash and equivalents	$ 1,012	$ 250
Total current assets	6,103	4,908
Total assets	54,355	85,058
Total current liabilities	6,857	6,305
Long-term debt	6,947	8,049
Minority interests	888	2,191
Partners' capital	37,117	65,405

6. TIME WARNER TELECOM PUBLIC OFFERINGS

Time Warner Telecom, a provider of local and regional optical broadband networks and services to business customers, was formed in July 1998 when Time Warner, TWE and TWE-A/N completed a reorganization of their business telephony operations. As part of that reorganization, TWE's and TWE-A/N's interests in Time Warner Telecom were distributed to their partners, Time Warner (including the General Partners), AT&T and the Advance/Newhouse Partnership ("Advance/Newhouse"), a partner in TWE-A/N.

In May 1999, Time Warner Telecom completed an initial public offering of 20% of its common stock (the "Time Warner Telecom IPO"). Time Warner Telecom issued approximately 21 million shares of common stock at a price of $14 per share and raised net proceeds of approximately $270 million, of which $180 million was paid to Time Warner and TWE in satisfaction of certain obligations. In turn, Time Warner and TWE used those proceeds principally to reduce bank debt. In connection with the Time Warner Telecom IPO and certain related transactions, WCI's ownership interest in Time Warner Telecom was diluted from approximately 28% to approximately 22% and ATC's ownership interest in Time Warner Telecom was diluted from approximately 19% to approximately 15%.

In January 2001, Time Warner Telecom completed a public offering of an additional 7.475 million shares of its common stock at a price of $74.44, raising proceeds of approximately $556 million. As a result, WCI's ownership in Time Warner Telecom was diluted from approximately 22% to approximately 20% and ATC's ownership in Time Warner Telecom was diluted from approximately 15% to approximately 14%.

During 2002 and 2001, WCI recorded impairment charges of approximately $356 million and $542 million, respectively, while ATC recorded impairment charges of approximately $244 million and $372 million, respectively.

As of December 31, 2002, Time Warner Telecom is owned 44% by AOL Time Warner, including 20% by WCI and 14% by ATC. The General Partners' interests in Time Warner Telecom are being accounted for under the equity method of accounting.

7. OTHER INVESTMENTS

WCI's other investments consist of:

	December 31, 2002	December 31, 2001
	(millions)	
Equity method investments	$4,199	$5,972
Cost and fair-value method investments[a]	154	112
Total	$4,353	$6,084

[a] The fair value of the General Partners' cost-method and fair-value investments were approximately $154 million at December 31, 2002 and $112 million at December 31, 2001.

Investment Gains

Prior to June 2002, the Columbia House Company Partnerships ("Columbia House") was a 50-50 joint venture between AOL Time Warner and Sony Corporation of America ("Sony"). In June 2002, AOL Time Warner and Sony each sold 85% of their respective 50% interest in Columbia House to Blackstone Capital Partners III LP ("Blackstone"), an affiliate of The Blackstone Group, a private investment bank. The sale has resulted in WCI recognizing a pretax gain of approximately $97 million, which is included in other income (expense), net, in the accompanying consolidated statement of operations. In addition, the WCI has deferred

an approximate $5 million gain on the sale. The deferred gain primarily relates to the estimated fair value of the portion of the proceeds received as a note receivable, which will be deferred until such time as the realization of such note becomes more fully assured. As part of the transaction, AOL Time Warner, including, WCI, will continue to license music and video product to Columbia House for a five-year period.

Investment Write-Downs

The United States economy has experienced a broad decline in the public equity markets, particularly in technology stocks, including investments held in WCI's and ATC's portfolios. Similarly, the General Partners have experienced significant declines in the value of certain privately held investments and investments accounted for using the equity method of accounting. As a result, the General Partners recorded non-cash pretax charges to reduce the carrying value of certain investments that experienced other-than-temporary declines. These charges were approximately $446 million for WCI and $244 million for ATC in 2002, $676 million for WCI and $372 million for ATC in 2001, and $115 million for WCI and $0 for ATC in 2000, and are included in other income (expense), net in the accompanying consolidated statements of operations. The portion of the above charges relating to publicly traded securities was $433 million in 2002, $599 million in 2001 and $0 in 2000 for WCI and $244 million in 2002, $372 million in 2001 and $0 in 2000 for ATC. The significant components of these charges are discussed in detail below.

Columbia House Investment Write-Down

In March 2000, the proposed merger between CDNOW, Inc. and Columbia House was terminated. In connection with the termination of the merger, the risk associated with the timely execution of certain strategic alternatives for Columbia House's operations and the transformation of Columbia House's traditional business model to an online one increased. As a result, AOL Time Warner's management concluded that the decline in Columbia House's business was likely to continue through the near term. As such, WCI recorded a $115 million non-cash pretax charge in the first quarter of 2000 to reduce the carrying value of its investment in Columbia House to an estimate of its fair value. Additionally, in the fourth quarter of 2001, AOL Time Warner's management concluded that a further decline in Columbia House's business was other-than-temporary and as such, WCI recorded a $65 million non-cash pretax charge.

Time Warner Telecom Write-Down

As discussed in Note 6, WCI has an approximate 20% interest and ATC has an approximate 14% interest in Time Warner Telecom. The value of both WCI's and ATC's investment was adjusted upward in the Merger by approximately $992 million and $682 million, respectively, to their estimated fair values. Since that time, Time Warner Telecom's share price declined significantly and at December 31, 2001, the decline had met the 20% criteria. The General Partners also reviewed qualitative factors in accordance with its investment policy and determined that the decline in value was not temporary; therefore impairment charges of $542 million for WCI and $372 million for ATC were recognized in the fourth quarter of 2001 based upon the closing value of Time Warner Telecom common stock as of December 31, 2001.

During 2002, the fair value of the General Partners' investment in Time Warner Telecom continued to decline, resulting in additional impairment charges for WCI and ATC of $255 and $175 million in the first quarter, respectively, $90 million and $62 million in the second quarter, respectively, and $11 million and $7 million in the third quarter, respectively, to reduce the carrying value of the investment to fair value, which was determined by the quarter ending values of Time Warner Telecom common stock. As of December 31, 2002, the carrying value of the General Partners' investment in Time Warner Telecom had been reduced to $0 as a result of the impairment charges and the General Partners' share of Time Warner Telecom's losses pursuant to the equity method of accounting. The General Partners do not have any funding commitments related to Time Warner Telecom.

Equity Method Investments

In addition to TWE and its equity investees, investments accounted for using the equity method and the voting ownership percentage held by WCI at December 31, 2002 include: Time Warner Telecom (approximately 20% and 14% owned by WCI and ATC, respectively; 44% owned by AOL Time Warner), and other music joint ventures (between 30% and 50% owned). A summary of combined financial information as reported by the equity investees of WCI is set forth below:

	Years Ended December 31,		
	2002	2001	2000
		(millions)	
Operating Results:			
Revenues	$ 859	$1,934	$1,851
Operating loss	(265)	(115)	(216)
Net loss	(385)	(273)	(380)
Balance Sheet:			
Current assets	688	871	674
Total assets	2,278	3,029	2,006
Current liabilities	409	2,027	1,130
Total liabilities	1,618	3,453	2,799
Total shareholders' equity (deficit) or partners' capital	660	(424)	(793)

The above table represents the combined financial information of entities in which WCI has a significant investment accounted for using the equity method of accounting. These amounts are not the amounts reflected on WCI's accompanying consolidated financial statements. Consistent with the General Partners' accounting policy for investments accounted for using the equity method of accounting, as described in Note 1, WCI has included $4.199 billion and ATC has included $1.199 billion in "Other investments" on the accompanying consolidated balance sheets, representing the General Partners' investments in and amounts due to and from the equity investees. Similarly, WCI has recorded $144 million of expense and ATC has recorded $7 million of expense, in other income (expense), net, in the accompanying consolidated statements of operations, representing the General Partners' share in the pretax income (loss) of these investees.

As discussed in Note 1, under the purchase method of accounting, the cost to acquire Time Warner was allocated to its underlying net assets, including the General Partners' investments accounted for using the equity method of accounting, based on their estimated fair values. As a result, WCI's investments accounted for using the equity method of accounting were adjusted upward by approximately $4.9 billion, including $992 million relating to its investment in Time Warner Telecom and ATC's investments were adjusted upwards by approximately $3.2 billion, including $682 million related to its investment in Time Warner Telecom.

Ownership in Parent Company

WCI and ATC own 28.9 thousand and 14.8 thousand shares, respectively, of TW Companies common stock. Such investments are accounted for at historical cost, less the portion (collectively estimated at 85%) attributable to TW Companies' ownership of the General Partners, which is deducted from shareholders' equity under the caption "Reciprocal interest in TW Companies stock." The TW Companies common stock owned by the General Partners may only be sold pursuant to an effective registration statement or in a transaction exempt from the registration requirements of the Securities Act of 1933. In addition to TW Companies common stock, ATC also owns certain TW Companies debt securities. Such debt securities, which were not significant at either December 31, 2002 or December 31, 2001, are held by ATC for the

purpose of satisfying its obligations under its stock options and restricted stock awards subsequent to the acquisition of the ATC minority interest.

8. BORROWING ARRANGEMENTS WITH TW COMPANIES

WCI and ATC each has a revolving credit agreement with TW Companies, which provides for borrowings from TW Companies of up to $1 billion. Each credit agreement expires on December 31, 2008. Interest on any borrowings under each credit agreement is payable quarterly at the prime rate. Each of WCI's and ATC's obligation to TW Companies under the credit agreement is subordinate to the General Partner Guarantees. At December 31, 2002 and 2001, there were no borrowings outstanding under these credit agreements.

9. GENERAL PARTNER GUARANTEES

Each General Partner has guaranteed a pro rata portion of approximately $3.3 billion of TWE's debt and accrued interest at December 31, 2002, based on the relative fair value of the net assets each General Partner (or its predecessor) contributed to TWE. Such indebtedness is recourse to each General Partner only to the extent of its guarantee. The indenture pursuant to which TWE's notes and debentures have been issued (the "Indenture") requires the consent of a majority of such holders to effect a termination; however, the Indenture permits the General Partners to engage in mergers and consolidations. There are no restrictions on the ability of the General Partner guarantors to transfer assets, other than TWE assets, to parties that are not guarantors.

The portion of TWE debt and accrued interest at December 31, 2002 that was guaranteed by each General Partner, individually and on a consolidated basis for each General Partner and its subsidiaries, is set forth below:

General Partner	Total Guaranteed by Each General Partner %	Amount
	(dollars in millions)	
WCI	59.27	$1,950
ATC	40.73	1,340
Total	100.00	$3,290

10. INCOME TAXES

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

	Years Ended December 31,					
	2002		2001		2000	
	WCI	ATC	WCI	ATC	WCI	ATC
	(millions)					
Domestic	$(2,322)	$(643)	$(2,830)	$(1,278)	$322	$341
Foreign	203	53	197	33	214	65
Total	$(2,119)	$(590)	$(2,633)	$(1,245)	$536	$406

Income taxes (benefits) are as set forth below:

	Years Ended December 31,					
	2002		2001		2000	
	WCI	ATC	WCI	ATC	WCI	ATC
	(millions)					
Federal						
Current	$ (47)	$127	$(264)	$ (95)	$ 58	$ 93
Deferred	(153)	(78)	(164)	(118)		
State and Local						
Current	12	40	(44)	(16)	73	41
Deferred	(40)	(20)	(43)	(30)		
Foreign						
Current[a]	159	55	103	43	165	56
Deferred	(11)	(4)	38	4	(6)	(4)
Total	$ (80)	$120	$(374)	$(212)	$ 290	$ 186

(a) Includes foreign withholding taxes set forth below.

Foreign withholding taxes included in the foreign tax provision are as follows:

	WCI	ATC
	(millions)	
2002	$71	$32
2001	63	28
2000	77	32

No U.S. income or foreign withholding taxes have been recorded by WCI on the permanently reinvested earnings of foreign subsidiaries aggregating approximately $822 million at December 31, 2002. If such earnings were to be repatriated, it is expected that any additional U.S. income tax would be offset by the utilization of the accompanying foreign tax credits.

The differences between the income tax (tax benefit) expected for WCI at the U.S. federal statutory income tax rate and the total income taxes provided are as follows:

	Years Ended December 31,		
	2002	2001	2000
	(millions)		
Taxes on income at U.S. federal statutory rate	$(723)	$(922)	$188
Nondeductible expenses	669	529	80
Foreign income taxed at different rates, net of U.S. foreign tax credits	(18)	10	(17)
State and local taxes, net	(18)	(29)	48
Other	10	38	(9)
Total	$ (80)	$(374)	$290

The relationship between income taxes and income before income taxes for the other General Partner is principally affected by the charge for the impairment of goodwill and certain other financial statement expenses that are not deductible for income tax purposes.

As a result of the application of the purchase method of accounting in 2001, certain intangible assets and investments accounted for under the equity method of accounting were significantly adjusted upward to their fair value. Since the tax basis of these assets remained unchanged as a result of the Merger, the General

Partners recognized significant amounts of deferred tax liabilities, which relate to recorded music intangibles and equity investments in 2002 and 2001, respectively.

11. STOCK OPTION PLANS

AOL Time Warner has various stock option plans under which AOL Time Warner may grant options to purchase AOL Time Warner common stock to employees of AOL Time Warner and WCI. Such options have been granted to employees of WCI with exercise prices equal to, or in excess of, fair market value at the date of grant. Accordingly, in accordance with APB 25 and related interpretations, compensation cost generally has not been recognized by AOL Time Warner, nor charged to WCI, related to such stock option plans. Generally, the options become exercisable over a three-year vesting period and expire ten years from the date of grant. Had compensation cost for AOL Time Warner's stock option plans been determined based on the fair value method set forth under FAS 123, WCI's net income (loss) would have been changed to the pro forma amounts indicated below:

	Years Ended December 31,		
	2002	2001	2000
		(millions)	
Net income (loss), as reported	$(21,001)	$(2,259)	$ 44
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards net of related tax effects	(90)	(33)	(41)
Pro forma net income (loss)	$(21,091)	$(2,292)	$ 3

For purposes of applying FAS 123, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions (which, for 2000, reflect the impact of the announced Merger) used for grants to WCI employees in 2002, 2001 and 2000: dividend yields of 0% for all periods; expected volatility of 52.9%, 59.3% and 46.3%, respectively; risk-free interest rates of 4.12%, 4.88% and 6.34%, respectively; and expected term to exercise of .47 years after vesting for 2002 and 1.0 years after vesting for 2001 and 2000.

The weighted average fair value of an option granted to WCI employees was $9.40 ($5.64, net of taxes), $25.89 ($15.53, net of taxes) and $27.50 ($16.50, net of taxes) for the years ended December 31, 2002, 2001 and 2000, respectively.

A summary of stock option activity with respect to employees of WCI is as follows:

	Thousands of Shares	Weighted-Average Exercise Price
Balance at December 31, 1999	23,532	$17.79
2000 Activity:		
Granted	2,847	56.22
Exercised	(5,017)	9.78
Cancelled/Transfers[a]	156	21.67
Balance at December 31, 2000	21,518	$24.77
2001 Activity:		
Granted[b]	10,258	46.86
Exercised	(1,135)	13.84
Cancelled/Transfers[a]	(3,874)	36.80
Balance at December 31, 2001	26,767	$36.20
2002 Activity:		
Granted	7,490	$24.58
Exercised	(1,341)	10.23
Cancelled/Transfers[a]	(1,492)	40.29
Balance at December 31, 2002	31,424	$34.35

(a) Includes all options cancelled and forfeited during the year, as well as options related to employees who have been transferred out of and into WCI to and from other AOL Time Warner divisions.

(b) In 2001, a special Founder's Grant was issued to most individuals who were employees of AOL Time Warner during the year the Merger was consummated, only a portion of which is expected to be recurring in the future.

	December 31,		
	2002	2001	2000
		(thousands)	
Exercisable	17,023	15,467	19,427

The following table summarizes information about stock options outstanding with respect to employees of WCI at December 31, 2002:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding as of 12/31/02 (thousands)	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable as of 12/31/02 (thousands)	Weighted-Average Exercise Price
Under $10	0	N/A	N/A	0	N/A
$10.00 to $15.00	5,199	3.79	$12.62	4,194	$12.53
$15.01 to $20.00	1,764	5.08	$16.55	1,561	$16.35
$20.01 to $30.00	7,955	8.15	$25.89	1,982	$23.65
$30.01 to $45.00	4,207	7.28	$37.96	2,869	$38.38
$45.01 to $50.00	9,394	7.67	$48.46	4,415	$47.89
$50.01 to $60.00	2,889	7.59	$56.27	1,991	$56.62
$60.01 to $90.00	16	7.25	$64.00	11	$64.00
Total	31,424	6.95 years	$34.35	17,023	$32.89

In connection with Time Warner's agreement to merge with America Online entered into in January 2000, all Time Warner stock options held by WCI employees at that time became fully vested and exercisable, pursuant to the terms of Time Warner's stock option plans. In addition, on January 11, 2001, the date the Merger was consummated, each outstanding equity security of Time Warner was converted into 1.5 units of an equivalent equity security of AOL Time Warner. See Note 1 for a summary of the terms of the Merger.

12. BENEFIT PLANS

WCI and its subsidiaries participate in defined benefit pension plans covering substantially all domestic employees. Pension benefits under those plans are based on formulas that reflect the employees' years of service and compensation levels during their employment period. For the years ended December 31, 2002, 2001 and 2000, WCI made no contributions and recognized expense of $16 million, $7 million and $2 million, respectively, related to these plans.

Effective January 1, 2000, substantially all of the WCI-sponsored defined benefit pension plans were merged into the defined benefit pension plan sponsored by Time Warner (currently sponsored by AOL Time Warner). The remaining WCI-sponsored plan relating to its domestic operations is not material to the consolidated financial statements of WCI.

After the Merger, participation in the defined benefit pension plan covering domestic employees was limited to employees who previously participated in these plans. Effective January 1, 2003, however, the defined benefit plan was reopened to all eligible employees. In addition to its domestic employees, employees of WCI's operations in foreign countries participate to varying degrees in local pension plans, which in the aggregate are not significant.

Certain domestic employees of WCI also participate in certain defined contribution plans of AOL Time Warner, including savings plans and profit sharing plans, as to which the expense amounted to $6 million in 2002, $5 million in 2001 and $16 million in 2000. Contributions to the savings plans are based upon a percentage of the employees' elected contributions.

13. DERIVATIVE FINANCIAL INSTRUMENTS

WCI uses derivative financial instruments principally to manage the risk that changes in exchange rates will affect the amount of unremitted or future royalties and license fees to be received from the sale of U.S.

copyrighted products abroad. The following is a summary of WCI's foreign currency risk management strategy and the effect of this strategy on WCI's consolidated financial statements.

Foreign Currency Risk Management

Foreign exchange contracts are used primarily by AOL Time Warner to hedge the risk that unremitted or future royalties and license fees owed to WCI domestic companies for the sale or anticipated sale of U.S. copyrighted products abroad may be adversely affected by changes in foreign currency exchange rates. As part of its overall strategy to manage the level of exposure to the risk of foreign currency exchange rate fluctuations, primarily exposure to changes in the value of the British pound, Japanese yen and European currency, AOL Time Warner hedges a portion of its TWE's and WCI's combined foreign currency exposures anticipated over the ensuing fifteen-month period (the "hedging period"). The hedging period for royalties and license fees covers revenues expected to be recognized over the ensuing twelve-month period, however, there is often a lag between the time that revenue is recognized and the transfer of foreign-denominated revenues back into U.S. dollars. Therefore, the hedging period covers a fifteen-month period. To hedge this exposure, AOL Time Warner uses foreign exchange contracts that generally have maturities of three months to fifteen months to provide continuing coverage throughout the hedging period. AOL Time Warner reimburses or is reimbursed by WCI for contract gains and losses related to WCI's foreign currency exposure. At December 31, 2002, AOL Time Warner had effectively hedged approximately 75% of WCI's estimated net foreign currency exposures that principally relate to anticipated cash flows for royalties and license fees to be remitted to the U.S. over the ensuing hedging period.

WCI records these foreign exchange contracts at fair value in its consolidated balance sheet and the related gains or losses on these contracts are deferred in shareholders' equity (as a component of comprehensive income). These deferred gains and losses are recognized in income in the period in which the related royalties and license fees being hedged are received and recognized in income. However, to the extent that any of these contracts are not considered to be perfectly effective in offsetting the change in the value of the royalties and license fees being hedged, any changes in fair value relating to the ineffective portion of these contracts are immediately recognized in income. Gains and losses on foreign exchange contracts generally are included as a component of other income (expense), net, in WCI's consolidated statement of operations.

At December 31, 2002, AOL Time Warner had contracts for the sale of $1.588 billion and the purchase of $1.341 billion of foreign currencies at fixed rates. Of AOL Time Warner's $247 million net sale contract position, $613 million of foreign exchange sale contracts and $430 million of foreign exchange purchase contracts related to WCI's foreign currency exposure, including net contracts for the sale of $90 million of Japanese yen and $252 million of European currency, and net contracts for the purchase of $153 million of the British pound. In 2001, WCI had contracts for the sale of $448 million and purchase of $400 million of foreign currencies, including net contracts for the sale of $146 million of Japanese yen, and net contracts for the purchase of $28 million of European currency and $62 million of the British pound. WCI had deferred approximately $2 million of net losses on foreign exchange contracts at December 31, 2002, which is all expected to be recognized in income over the next twelve months. For the years ended December 31, 2002, 2001 and 2000, WCI recognized $5 million in losses, $19 million in losses and $7 million in losses, respectively, on foreign exchange contracts, which were or are expected to be largely offset by corresponding decreases and increases, respectively, in the dollar value of foreign currency royalty payments that have been or are anticipated to be received in cash from the sale of U.S. copyrighted products abroad. During 2002 and 2001, WCI did not recognize any gains or losses as the result of the discontinuance of cash flow hedges because it was probable that the original forecasted transaction would not occur within the specified time period.

14. GEOGRAPHICAL INFORMATION

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

	Years Ended December 31,		
	2002	2001	2000
		(millions)	
Revenues[a][b]			
United States	$2,429	$2,191	$2,341
United Kingdom	284	306	294
Germany	340	296	326
Japan	216	257	295
France	156	136	139
Other international	780	850	873
Total	$4,205	$4,036	$4,268

(a) Revenues are attributable to countries based on location of customer.

(b) Revenues reflect the provisions of EITF 01-09 and EITF 01-14 that were adopted by WCI in 2002, which require retroactive restatement of 2001 and 2000 results to reflect the new accounting provisions. As a result, the net impact of EITF 01-09 and EITF 01-14 was to increase revenues and costs by equal amounts of $107 million for 2001 and (b) reduce revenues and costs by an equal amount of $120 million in 2000.

Because a substantial portion of WCI's international revenues is derived from the sale of U.S. copyrighted products abroad, assets located outside the United States are not material.

15. COMMITMENTS AND CONTINGENCIES

Commitments

WCI's total rent expense amounted to $60 million in 2002, $55 million in 2001 and $59 million in 2000. The minimum net rental commitments of WCI under noncancellable long-term operating leases are: 2003 — $55 million; 2004 — $56 million; 2005 — $59 million; 2006 — $60 million; 2007 — $62 million and after 2007 — $58 million.

Each General Partner is jointly and severally liable for all liabilities, commitments and contingencies of TWE and the Time Warner Service Partnerships, except for approximately $3.3 billion of TWE's indebtedness and accrued interest, which is recourse to each General Partner only to the extent of its guarantee (Note 9).

The following table summarizes separately WCI's material firm commitments at December 31, 2002 and the timing and effect that such obligations are expected to have on WCI's liquidity and cash flow in future periods. It should be noted that there are a number of firm commitments made by WCI in the normal course of business, the following table represents the more significant of those firm commitments. WCI expects to fund these commitments with operating cash flow generated in the normal course of business.

Nature of Firm Commitments	2003	2004-2006	2007 and thereafter	Total
		(millions)		
Talent contracts[a]	$109	$329	$109	$547
Net operating leases	55	175	120	350
Letters of credit and other firm commitments	10	11	—	21
Total firm commitments	$174	$515	$229	$918

[a] Amount consists primarily of artist advances. Due to the unpredictable timing of these payments, estimates were made regarding which period the advances would be made in.

Contingencies

WCI is subject to various class action lawsuits as well as actions that have been brought by various state attorneys general alleging collusive and other illegal pricing practices by the major record companies in their capacity as distributors of compact discs. Although WCI cannot predict the ultimate outcomes, WCI does not expect that the ultimate outcomes of these cases will have a material adverse impact on WCI's financial statements or results of operations.

In addition, on April 8, 2002, three former employees of certain subsidiaries of the Company 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 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. Due to the preliminary status of this matter, the Company is unable to predict the outcome of this suit.

TWE is subject to certain litigation relating to Six Flags. 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.

The costs and other effects of pending or future litigation, governmental investigations, legal and administrative cases and proceedings (whether civil or criminal), settlements, judgments and investigations, claims and changes in those matters (including those matters described above), and developments or assertions by or against WCI relating to intellectual property rights and intellectual property licenses, could have a material adverse effect on WCI's business, financial condition and operating results.

16. RELATED PARTY TRANSACTIONS

In the normal course of conducting their businesses, the General Partners have had various transactions with AOL Time Warner, TW Companies and TWE units, generally on terms resulting from a negotiation between the affected units that in management's view results in reasonable allocations. Employees of WCI participate in various AOL Time Warner medical, stock option and other benefit plans for which WCI is charged its allocable share of plan expenses, including administrative costs. ATC does not have a significant number of employees. AOL Time Warner's corporate group provides various other services to WCI. The consolidated financial statements of the General Partners include transactions with AOL Time Warner relating to domestic income taxes or tax benefits (Note 10). The Music division of WCI provides home videocassette distribution services to certain TWE operations.

TW Companies had a credit agreement with TWE allowing it to borrow up to $400 million from TWE through September 15, 2000.

WCI earned interest income at a rate of 6.7% from TW Companies on a $610 million note receivable, which was received in December 1997 in exchange for WCI's common stock of Hasbro. During 2000, WCI's note receivable from TW Companies, including accrued interest, was settled through a WCI non-cash dividend in the amount of $695 million. In addition, WCI has had transactions with the Columbia House Company partnership and other music joint ventures and with equity investees of AOL Time Warner, generally with respect to sales of product in the ordinary course of business.

17. OTHER FINANCING ARRANGEMENTS

From time to time, WCI, through AOL Time Warner, 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 receivables. WCI employs these arrangements because they provide a cost-efficient form of financing, including certain tax benefits, as well as an added level of diversification of funding sources. WCI 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 provide direct security for the funding being provided. The assets and financing associated with these arrangements, which are discussed in more detail in the following paragraphs, generally qualify for off-balance sheet treatment.

Accounts Receivable Securitization Facility

WCI participates in one of AOL Time Warner's accounts receivable securitization facilities, which provides for the accelerated receipt of approximately $450 million of cash, in the aggregate, on available accounts receivables, all of which was utilized as of December 31, 2002. In connection with this securitization facility, WCI sells, on a revolving and nonrecourse basis, certain of its accounts receivables ("Pooled Receivables") to a qualifying SPE, which in turn sells a percentage ownership interest in the Pooled Receivables to third-party commercial paper conduits sponsored by financial institutions. These securitization transactions are accounted for as a sale in accordance FAS 140, because WCI relinquished control of the

receivables. Accordingly, accounts receivable sold under these facilities are excluded from receivables in the accompanying consolidated balance sheet.

As proceeds for the accounts receivable sold to the qualifying SPE, AOL Time Warner and WCI receive cash, for which there is no obligation to repay, and an interest-bearing note receivable, which is included in receivables on the accompanying consolidated balance sheet. In addition, AOL Time Warner and WCI service the Pooled Receivables on behalf of the qualifying SPE. Income received by AOL Time Warner and WCI in exchange for this service is equal to the prevailing market rate for such services and has not been material in any period. The notes receivable, which have been adjusted to reflect the portion that is not expected to be collectible, bear an interest rate that varies with the prevailing market interest rates. For this reason and because the accounts receivables underlying the retained ownership interest that are sold to the qualifying SPE are generally short term in nature, the fair value of the notes receivable approximated their carrying value at both December 31, 2002 and December 31, 2001. However, notes receivable may become uncollectible to the extent the qualifying SPE has credit losses and operating expenses. The notes receivable related to the sale of Pooled Receivables to a qualifying SPE reflected on WCI's consolidated balance sheet were $146 million at December 31, 2002 and $296 million at December 31, 2001.

In January 2003, the FASB issued FIN 46, which requires variable interest entities (commonly referred to as SPEs) to 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 General Partners' during the third quarter of 2003. Although the General Partners have not completed their review, the General Partners anticipate that the adoption of FIN 46 will not have a significant impact on their consolidated financial statements.

Cash Flows

Additional financial information with respect to cash payments and receipts is as follows:

	Years Ended December 31,					
	2002		2001		2000	
	WCI	ATC	WCI	ATC	WCI	ATC
	(millions)					
Cash payments made for interest, net	$ 34	$ —	$ 10	$ —	$ 11	$ —
Cash payments (refunds) for income taxes, net	(189)	72	(225)	(111)	73	122
Tax related distributions received from TWE	280	193	31	22	453	312
Non-cash capital distributions, net	245	168	—	—	221	152

Non-cash financing activities in 2002 include the settlement of a WCI receivable from TW Companies through a WCI dividend of $360 million. Noncash investing activities in 2002 include the exchange of 20% of WCI's interest in Word to Curb Records for noncash consideration of equal value.

Interest Expense, Net

Interest expense, net, consists of:

	Years Ended December 31,					
	2002		2001		2000	
	WCI	ATC	WCI	ATC	WCI	ATC
	(millions)					
Interest income	$ 7	$—	$ 9	$—	$ 8	$—
Interest expense	(66)	—	(34)	(1)	(11)	(1)
Total interest expense, net	$(59)	$—	$(25)	$(1)	$ (3)	$(1)

Other Income (Expense), Net

Other income (expense), net, consists of:

	Years Ended December 31,					
	2002		2001		2000	
	WCI	ATC	WCI	ATC	WCI	ATC
	(millions)					
Net investment losses[a]	$(446)	$(244)	$ (676)	$(372)	$(108)	$—
Gains (losses) on equity investees	144	7	(418)	(196)	(32)	36
Securitization income (expense)	(3)	—	(12)	—	(43)	—
Other	(3)	—	18	—	(5)	—
Total other income (expense), net	$(308)	$(237)	$(1,088)	$(568)	$(188)	$36

(a) Includes a non-cash pretax charge for WCI and ATC to reduce the carrying value of certain investments for other-than-temporary declines in value of approximately $446 million and $244 million, respectively, for the year ended December 31, 2002, approximately $676 million and $372 million, respectively, for the year ended December 31, 2001 and $108 million and $0 for the year ended December 31, 2000 (Note 7).

Other Current Liabilities

Other current liabilities of WCI consist of:

	December 31,	
	2002	2001
	(millions)	
Accrued expenses	$321	$683
Accrued compensation	128	169
Accrued income taxes	22	—
Deferred revenues	51	42
Total	$522	$894

REPORT OF INDEPENDENT AUDITORS

The Board of Directors of
Warner Communications Inc.
American Television and Communications Corporation

We have audited the accompanying consolidated balance sheets of Warner Communications Inc. ("WCI") and American Television and Communications Corporation ("ATC"), as of December 31, 2002 and 2001, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2002. Our audits also included the accompanying financial statement schedule listed in the index at Item 15 (a). These financial statements and schedule are the responsibility of management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of WCI and ATC at December 31, 2002 and 2001, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, in 2000 Time Warner Inc. and Time Warner Entertainment Company, L.P. ("TWE") each changed their film accounting method, and in 2002 WCI, ATC, AOLTW Inc. and TWE changed their method of accounting for goodwill and intangibles.

ERNST & YOUNG LLP

New York, New York
January 29, 2003

TWE GENERAL PARTNERS
SELECTED FINANCIAL INFORMATION

WCI Selected Historical Financial Information

Selected historical financial information is not presented for ATC because ATC has no independent business operations, nor does it have significant amounts of debt or other liabilities. The financial position and results of operations of ATC are principally derived from its investments in TWE, TW Companies, Turner Broadcasting System, Inc. and Time Warner Telecom and its revolving credit agreement with TW Companies.

The selected historical financial information of WCI set forth below has been derived from and should be read in conjunction with the consolidated financial statements and other financial information of WCI presented elsewhere herein. Capitalized terms are as defined and described in such consolidated financial statements, or elsewhere herein.

The selected historical financial information for 1997 reflects the merger of two former General Partners, Warner Cable Communications Inc., ("WCCI") and Time Warner Operations Inc. ("TWOI"), into WCI (the "WCCI Merger" and the "TWOI Merger," respectively). The WCCI Merger had no effect on the consolidated financial statements of WCI because WCCI was a consolidated subsidiary of WCI prior to the merger and, as such, WCCI's net assets, operating results and cash flows were already included in the consolidated financial statements of WCI. The TWOI Merger was accounted for as a merger of entities under common control, similar to the pooling-of-interest method of accounting for business combinations.

Selected Operating Statement Information

	Years Ended December 31,				
	2002	2001	2000	1999	1998
			(millions)		
Revenues[a]	$ 4,205	$ 4,036	$4,268	$4,052	$4,236
Operating income (loss)[b]	(1,325)	(551)	188	169	185
Equity in pretax income (loss) of TWE[c] [d]	(427)	(969)	539	1,724	248
Interest income (expense), net	(59)	(25)	(3)	73	68
Other income (expense), net[e]	(308)	(1,088)	(188)	80	(22)
Income (loss) before cumulative effect of accounting change and extraordinary item	(2,039)	(2,259)	246	1,207	218
Net income (loss)	(21,001)	(2,259)	44	1,207	218

(a) Revenues reflect the provisions of EITF 01-09 and 01-14, which were adopted in the first quarter of 2002. As a result of applying the guidance of EITF 01-14 and 01-09, revenues were increased by $107 million in 2001, $120 million in 2000, $119 million in 1999 and $124 million in 1998. Revenues also reflect the provisions of SAB 101, which was adopted in the fourth quarter of 2000. The impact of SAB 101 was to increase revenues and costs by equal amounts of $135 million in 2000, $99 million in 1999 and $87 million in 1998.

(b) Includes merger-related costs of approximately $8 million in 2002, $37 million in 2001 and $18 million in 2000.

(c) Includes an approximate $1.572 billion non-cash pretax charge in 2002 representing WCI's share of TWE's goodwill and other intangible assets impairment charge.

(d) Includes approximately $14 million in 2000, $1.402 billion in 1999 and $(53) million in 1998, relating to WCI's proportionate share of net gains (losses) recognized by TWE in connection with the sale or exchange of cable television systems and other investment-related assets in 1999 and 1998, a pretax charge of $50 million recognized in 2000 in connection with the Six Flags litigation, pretax gains of $10 million recognized in 2000, $40 million recognized in 1999 and $30 million recognized in 1998 related to the partial recognition of a deferred gain in connection with the 1998 sale of Six Flags, a pretax gain of approximately $215 million in connection with the early termination and settlement of a long-term, home video distribution agreement in 1999, a pretax gain of approximately $97 million in 1999 and $65 million in 2000, principally relating to the 1999 sale of an interest in CanalSatellite and a pretax noncash charge of approximately $106 million relating to Warner Bros.' retail stores.

(e) Includes an approximate $446 million and $676 million non-cash pretax charge in 2002 and 2001, respectively to reduce the carrying value of certain investments that experienced other-than-temporary declines in market value, a $115 million non-cash pretax charge in 2000 to reduce the carrying value of WCI's investment in Columbia House to an estimate of fair value, an approximate $53 million pretax gain in 1999 relating to the Time Warner Telecom IPO and a $437 million pretax gain in connection with the disposal of WCI's interest in Hasbro in 1997.

TWE GENERAL PARTNERS
SELECTED FINANCIAL INFORMATION — (Continued)

Selected Balance Sheet Information

	December 31,				
	2002	2001	2000	1999	1998
			(millions)		
Total assets	$30,224	$61,823	$11,046	$11,481	$10,348
Shareholders' equity	25,991	57,424	8,776	8,737	7,701

TWE GENERAL PARTNERS
SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS OF WCI
Years Ended December 31, 2002, 2001 and 2000

Description	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Deductions	Balance at End of Period
		(millions)		
2002:				
Reserves deducted from accounts receivable:				
Allowance for doubtful accounts	$106	$ 17	$ (46)[(a)]	$ 77
Reserves for sales returns and allowances	249	520	(552)[(b)]	217
Total	$355	$537	$(598)	$294
2001:				
Reserves deducted from accounts receivable:				
Allowance for doubtful accounts	$ 50	$ 60	$ (4)[(a)]	$106
Reserves for sales returns and allowances	217	596	(564)[(b)]	249
Total	$267	$656	$(568)	$355
2000:				
Reserves deducted from accounts receivable:				
Allowance for doubtful accounts	$ 68	$ —	$ (18)[(a)]	$ 50
Reserves for sales returns and allowances	222	550	(555)[(b)]	217
Total	$290	$550	$(573)	$267

[(a)] Represents uncollectible receivables charged against the reserve.

[(b)] Represents returns or allowances applied against the reserve.

EXHIBIT INDEX

Exhibit Number	Description	Sequential Page Number
2.0	Restructuring Agreement dated as of August 20, 2002 by and among Time Warner Entertainment Company, L.P. ("TWE"), AT&T Corp. ("AT&T"), MediaOne of Colorado, Inc. ("MediaOne"), MediaOne TWE Holdings, Inc. ("Holdings"), Comcast Corporation, AT&T Comcast Corporation, AOL Time Warner Inc. ("AOLTW"), TWI Cable Inc., Warner Communications Inc. ("WCI"), and American Television and Communications Corporation ("ATC") (the "Restructuring Agreement") (File No. 1-15062) (incorporated herein by reference to Exhibit 99.1 to the AOLTW Current Report on Form 8-K dated August 21, 2002).	*
3.1	Agreement of Limited Partnership, dated as of October 29, 1991, as amended by the Letter Agreement, dated February 11, 1992, and the Letter Agreement dated June 23, 1992, among Time Warner Companies, Inc. ("TWCI") and certain of its subsidiaries, ITOCHU Corporation ("Itochu") and Toshiba Corporation ("Toshiba") (the "TWE Partnership Agreement, as amended") (incorporated herein by reference to Exhibit (A) to TWCI's Current Report on Form 8-K dated October 29, 1991 (File No. 1-8637) and Exhibits 10(b) and 10(c) to TWCI's Current Report on Form 8-K dated July 14, 1992 (File No. 1-8637) ("TWCI's July 1992 Form 8-K")).	*
3.2	Amendment Agreement, dated as of September 14, 1993, among Itochu, Toshiba, TWCI, US WEST, Inc. and certain of their respective subsidiaries amending the TWE Partnership Agreement, as amended (incorporated herein by reference to Exhibit 3.2 to the TWE Annual Report on Form 10-K for the year ended December 31, 1993 (the "TWE 1993 Form 10-K")).	*
3.3(i) and (ii)	Certificate of Incorporation and By-Laws of American Television and Communications Corporation, as amended (incorporated herein by reference to Exhibits 3.3(i) and (ii) to the TWE 1993 Form 10-K).	*
3.3(iii)	Certificate of Ownership and Merger of American Digital Communications, Inc. into ATC as filed with the Secretary of State of the State of Delaware on May 31, 1996 (incorporated herein by reference to Exhibit 3.3(iii) to TWE's Annual Report on Form 10-K for the year ended December 31, 1996 (the "TWE 1996 Form 10-K")).	*
3.3(iv)	Certificate of Ownership and Merger of Carolina Network Corporation into ATC as filed with the Secretary of State of the State of Delaware on May 31, 1996 (incorporated herein by reference to Exhibit 3.3(iv) to the TWE 1996 Form 10-K).	*
3.3(v)	Certificate of Ownership and Merger of ATC Holdings II, Inc. into ATC as filed with the Secretary of State of the State of Delaware on June 28, 1996 (incorporated herein by reference to Exhibit 3.3(v) to the TWE 1996 Form 10-K).	*
3.3(vi)	Certificate of Ownership and Merger of ARP 113, Inc. into ATC as filed with the Secretary of State of the State of Delaware on August 29, 1997 (incorporated herein by reference to Exhibit 3.3(vi) to TWE's Annual Report on Form 10-K for the year ended December 31, 1997 (the "TWE 1997 Form 10-K")).	*
3.3(vii)	Certificate of Ownership and Merger of Philadelphia Community Antenna Television Company into ATC as filed with the Secretary of State of the State of Delaware on August 29, 1997 (incorporated herein by reference to Exhibit 3.3(vii) to the TWE 1997 Form 10-K).	*
3.3(viii)	Certificate of Ownership and Merger of Public Cable Company into ATC as filed with the Secretary of State of the State of Delaware on August 29, 1997 (incorporated herein by reference to Exhibit 3.3(viii) to the TWE 1997 Form 10-K).	*
3.3(ix)	Certificate of Ownership and Merger of ATC-PPV, Inc. into ATC as filed with the Secretary of State of the State of Delaware on October 7, 1998 (incorporated herein by reference to Exhibit 3.3(ix) to TWE's Annual Report on Form 10-K for the year ended December 31, 1998).	*

Exhibit Number	Description	Sequential Page Number
3.4(i) and (ii)	Amended and Restated Certificate of Incorporation, as amended, and By-Laws of WCI.	
4.1	Indenture, dated as of April 30, 1992, as amended by the First Supplemental Indenture, dated as of June 30, 1992, among TWE, TWCI, certain of TWCI's subsidiaries that are parties thereto and The Bank of New York ("BONY"), as Trustee (incorporated herein by reference to Exhibits 10(g) and 10(h) to TWCI's July 1992 Form 8-K).	*
4.2	Second Supplemental Indenture, dated as of December 9, 1992, among TWE, TWCI, certain of TWCI's subsidiaries that are parties thereto and BONY, as Trustee (incorporated herein by reference to Exhibit 4.2 to Amendment No. 1 to TWE's Registration Statement on Form S-4 (Registration No. 33-67688) filed with the Commission on October 25, 1993 (the "TWE 1993 Form S-4")).	*
4.3	Third Supplemental Indenture, dated as of October 12, 1993, among TWE, TWCI, certain of TWCI's subsidiaries that are parties thereto and BONY, as Trustee (incorporated herein by reference to Exhibit 4.3 to the TWE 1993 Form S-4).	*
4.4	Fourth Supplemental Indenture, dated as of March 29, 1994, among TWE, TWCI, certain of TWCI's subsidiaries that are parties thereto and BONY, as Trustee (incorporated herein by reference to Exhibit 4.4 to the TWE 1993 Form 10-K).	*
4.5	Fifth Supplemental Indenture, dated as of December 28, 1994, among TWE, TWCI, certain of TWCI's subsidiaries that are parties thereto and BONY, as Trustee (incorporated herein by reference to Exhibit 4.5 to TWE's Annual Report on Form 10-K for the year ended December 31, 1994).	*
4.6	Sixth Supplemental Indenture, dated as of September 29, 1997, among TWE, TWCI, certain of TWCI's subsidiaries that are parties thereto and BONY, as Trustee (incorporated herein by reference to Exhibit 4.7 to Time Warner Inc.'s ("Time Warner") Annual Report on Form 10-K for the year ended December 31, 1997 (File No. 1-12259) (the "Time Warner 1997 Form 10-K")).	*
4.7	Seventh Supplemental Indenture dated as of December 29, 1997, among TWE, TWCI, certain of TWCI's subsidiaries that are parties thereto and BONY, as Trustee (incorporated herein by reference to Exhibit 4.8 to the Time Warner 1997 Form 10-K).	*
10.1	$6 Billion Five-Year Revolving Credit Agreement, dated as of July 8, 2002, among AOLTW, TWE, Time Warner Entertainment-Advance/Newhouse Partnership ("TWE-A/N Partnership"), AOL Time Warner Finance Ireland, as Borrowers, the Lenders party thereto from time to time, JPMorgan Chase Bank ("JPMorgan Chase Bank"), as Administrative Agent, Bank of America, N.A. and Citibank, N.A., as Co-Syndication Agents, and ABN AMRO Bank N.V. and BNP Paribas, as Co-Documentation Agents, with associated Guarantees (incorporated herein by reference to Exhibit 99.1 to the AOLTW Current Report on Form 8-K dated July 8, 2002 (File No. 1-15062) (the "AOLTW July 2002 Form 8-K")).	*
10.2	$4 Billion 364-Day Revolving Credit Agreement, dated as of July 8, 2002, among AOLTW, TWE, TWE-A/N Partnership, AOL Time Warner Finance Ireland, as Borrowers, the Lenders party thereto from time to time, JPMorgan Chase Bank, as Administrative Agent, Bank of America, N.A. and Citibank, N.A. as Co-Syndication Agents, and ABN AMRO Bank N.V. and BNP Paribas, as Co-Documentation Agents, with associated Guarantees (incorporated herein by reference to Exhibit 99.2 to the AOLTW July 2002 Form 8-K).	*

Exhibit Number	Description	Sequential Page Number
10.3	Contribution Agreement, dated as of September 9, 1994, among TWE, Advance Publications, Inc., ("Advance Publications"), Newhouse Broadcasting Corporation ("Newhouse Broadcasting"), Advance/Newhouse Partnership ("Advance/Newhouse") and TWE-A/N Partnership (incorporated herein by reference to Exhibit 10(a) to TWE's Current Report on Form 8-K dated September 9, 1994).	*
10.4	Amended and Restated Partnership Agreement of TWE-A/N Partnership entered into as of February 1, 2001 by and between TWE, Advance/Newhouse and Paragon Communications ("Paragon") (incorporated herein by reference to Exhibit 10.46 to AOL Time Warner Inc.'s Transition Report on Form 10-K for the year ended December 31, 2000 (File No. 1-15062) (the "AOLTW 2000 Form 10-K")).	*
10.5	First Amendment to the Amended and Restated Partnership Agreement of TWE-A/N Partnership dated as of March 1, 2001 among TWE, Advance/Newhouse and Paragon (incorporated herein by reference to Exhibit 10.47 to the AOLTW 2000 Form 10-K).	*
10.6	Seconded Amended and Restated Partnership Agreement, dated as of August 1, 2002, by and among TWE-A/N Partnership, TWE, Paragon and Advance/Newhouse (incorporated herein by reference to Exhibit 10.52 to the AOL Time Warner Inc. Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 (File No. 1-15062) (the "AOLTW June 2002 Form 10-Q")).	*
10.7	Third Amended and Restated Partnership Agreement of TWE-A/N Partnership dated as of December 31, 2002 among TWE, Paragon and Advance/Newhouse (incorporated herein by reference to Exhibit 99.1 to the AOLTW Current Report on Form 8-K dated December 31, 2002 (File No. 1-15062) (the "AOLTW December 2002 Form 8-K")).	*
10.8	Amended and Restated Transaction Agreement, dated as of October 27, 1997 among Advance Publications, Newhouse Broadcasting, Advance/Newhouse, TW Holding Co. and TWE-A/N Partnership (incorporated herein by reference to Exhibit 99(c) to Time Warner's Current Report on Form 8-K dated October 27, 1997 (File No. 1-12259)).	*
10.9	Transaction Agreement No. 2 dated as of June 23, 1998 among Advance Publications, Newhouse Broadcasting, Advance/Newhouse, TWE, Paragon and TWE-AN Partnership (incorporated herein by reference to Exhibit 10.38 to Time Warner's Annual Report on 1998 Form 10-K (File No. 1-12259) (the "Time Warner 1998 Form 10-K")).	*
10.10	Transaction Agreement No. 3 dated as of September 15, 1998 among Advance Publications, Newhouse Broadcasting, Advance/Newhouse, TWE, Paragon and TWE-AN Partnership (incorporated herein by reference to Exhibit 10.39 to the Time Warner 1998 Form 10-K).	*
10.11	Amended and Restated Transaction No. 4 Agreement dated as of February 1, 2001 among Advance Publications, Newhouse Broadcasting, Advance/Newhouse, TWE, Paragon and TWE-AN Partnership (incorporated herein by reference to Exhibit 10.52 to the AOLTW 2000 Form 10-K).	*
10.12	Master Transaction Agreement, dated as of August 1, 2002, by and among TWE-A/N Partnership, TWE, Paragon and Advance/Newhouse (incorporated herein by reference to Exhibit 10.1 to the AOLTW June 2002 Form 10-Q).	*
10.13	Consent and Agreement dated as of December 31, 2002 among TWE-A/N, TWE, Paragon, Advance/Newhouse, TWEAN Subsidiary LLC ("TWEAN Subsidiary") and JPMorgan Chase Bank (incorporated herein by reference to Exhibit 99.2 to the AOLTW December 2002 Form 8-K).	*
10.14	Pledge Agreement dated as of December 31, 2002 among TWE-A/N, Advance/Newhouse, TWEAN Subsidiary and JPMorgan Chase Bank (incorporated herein by reference to Exhibit 99.3 to the AOLTW December 2002 Form 8-K).	*

Exhibit Number	Description	Sequential Page Number
10.15	Agreement Containing Consent Orders, including the Decision and Order, between AOLTW and the Federal Trade Commission signed December 13, 2000 (incorporated herein by reference to Exhibit 99.2 to the AOL Time Warner Current Report on Form 8-K dated January 11, 2001 (File No. 1-15062) (the "AOLTW January 2001 Form 8-K")).	*
10.16	Public Notice issued by the Federal Communications Commission dated January 11, 2001 (incorporated herein by reference to Exhibit 99.4 to the AOLTW January 2001 Form 8-K).	*
10.17	Form of Restated Certificate of Incorporation of Holdings, related to the Restructuring Agreement (incorporated herein by reference to Exhibit 10.3 to the AOLTW Quarterly Report on Form 10-Q for the quarter ended September 30, 2002 (File No. 1-15062) (the "AOLTW September 2002 Form 10-Q")).	*
10.18	Form of Amended and Restated Agreement of Limited Partnership of TWE, by and among Time Warner Cable Inc. ("TWC"), MediaOne, ATC, AT&T and AOLTW, related to the Restructuring Agreement (incorporated herein by reference to Exhibit 10.4 to the AOLTW September 2002 Form 10-Q).	*
10.19	Form of By-laws of TWC, related to the Restructuring Agreement (incorporated herein by reference to Exhibit 10.5 to the AOLTW September 2002 Form 10-Q).	*
10.20	Form of Registration Rights Agreement by and between AOLTW and TWC, related to the Restructuring Agreement (incorporated herein by reference to Exhibit 10.6 to the AOLTW September 2002 Form 10-Q).	*
10.21	Form of Registration Rights Agreement by and among MediaOne, AOLTW and TWC, related to the Restructuring Agreement (incorporated herein by reference to Exhibit 10.7 to the AOLTW September 2002 Form 10-Q).	*
10.22	Form of Parent Agreement among TWC, AOLTW and AT&T, related to the Restructuring Agreement (incorporated herein by reference to Exhibit 10.8 to the AOLTW September 2002 Form 10-Q).	*
10.23	Form of Partnership Interest Sale Agreement among TWC, AOLTW, AT&T and MediaOne, related to the Restructuring Agreement (incorporated herein by reference to Exhibit 10.9 to the AOLTW September 2002 Form 10-Q).	*
10.24	Form of Reimbursement Agreement by and among TWC, AOLTW, WCI, ATC and TWE, related to the Restructuring Agreement (incorporated herein by reference to Exhibit 10.10 to the AOLTW September 2002 Form 10-Q).	*
10.25	Form of Brand License Agreement by and between WCI and TWC, related to the Restructuring Agreement (incorporated herein by reference to Exhibit 10.11 to the AOLTW September 2002 Form 10-Q).	*
10.26	Form of Tax Matters Agreement among AOLTW and TWC, related to the Restructuring Agreement (incorporated herein by reference to Exhibit 10.12 to the AOLTW September 2002 Form 10-Q).	*
10.27	Form of Brand and Trade Name License Agreement by and among Time Warner and TWC, related to the Restructuring Agreement (incorporated herein by reference to Exhibit 10.13 to the AOLTW September 2002 Form 10-Q).	*
10.28	Registration Rights Agreement dated as of August 20, 2002 by and between MediaOne and AOLTW, related to the Restructuring Agreement (incorporated herein by reference to Exhibit 10.14 to the AOLTW September 2002 Form 10-Q).	*
10.29	Distribution Agreement dated as of August 20, 2002 by and among TWE, WCI and AOLTW, related to the Restructuring Agreement (incorporated herein by reference to Exhibit 10.15 to the AOLTW September 2002 Form 10-Q).	*
10.30	Intellectual Property Agreement dated as of August 20, 2002 by and between TWE and WCI, related to the Restructuring Agreement (incorporated herein by reference to Exhibit 10.16 to the AOLTW September 2002 Form 10-Q).	*

Exhibit Number	Description	Sequential Page Number
10.31	Contribution Agreement dated as of August 20, 2002 by and among Holdings, WCI and the AOLTW, related to the Restructuring Agreement (incorporated herein by reference to Exhibit 10.17 to the AOLTW September 2002 Form 10-Q).	*
10.32	Intellectual Property Agreement dated as of August 20, 2002 by and between Holdings and WCI, related to the Restructuring Agreement (incorporated herein by reference to Exhibit 10.18 to the AOLTW September 2002 Form 10-Q).	*
10.33	Demand Promissory Note dated August 19, 2002 issued by Holdings to MediaOne in the original principal amount of $2.1 billion, related to the Restructuring Agreement (incorporated herein by reference to Exhibit 10.19 to the AOLTW September 2002 Form 10-Q).	*
21	Subsidiaries of TWE and the AOL Time Warner General Partners.	
23.1	Consent of Ernst & Young LLP, Independent Auditors.	
99.1	Certification of Principal Executive Officer and Principal Financial Officer of the Registrant pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, with respect to the TWE Annual Report on Form 10-K for the year ended December 31, 2002.	
99.2	Certification of Principal Executive Officer and Principal Financial Officer of each of the general partners of TWE pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, with respect to the TWE Annual Report on Form 10-K for the year ended December 31, 2002.	

* Incorporated by reference.

The Registrants hereby agree to furnish to the Securities and Exchange Commission at its request copies of long-term debt instruments defining the rights of holders of the Registrants' outstanding long-term debt that are not required to be filed herewith.