EXHIBIT G

Time Warner Cable Inc.

Consolidated Financial Statements
For the years ended December 31, 2004, 2003 and 2002

Report of Independent Registered Public Accounting Firm

The Board of Directors
Time Warner Cable Inc.

We have audited the accompanying consolidated balance sheets of Time Warner Cable Inc. (the "Company") as of December 31, 2004 and 2003, and the related consolidated statements of operations, cash flows and shareholders' equity and attributed net assets for each of the three years in the period ended December 31, 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Time Warner Cable Inc. at December 31, 2004 and 2003, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States.

As described in Note 6 to the accompanying consolidated financial statements, Time Warner Cable Inc. changed its method of accounting for goodwill and intangible assets in 2002.

/s/ ERNST & YOUNG LLP

New York, New York
March 9, 2005, except for
Notes 13 and 14, as to which the
date is June 17, 2005

Time Warner Cable Inc.
Consolidated Balance Sheet

	As of December 31, 2004		As of December 31, 2003
	(in millions, except share data)		
Assets			
Current assets:			
Cash and cash equivalents	$ 102	$	329
Receivables, less allowance of $53 in 2004 and 2003	363		370
Receivables from affiliated parties	23		65
Other current assets	37		34
Total current assets	525		798
Investments	1,964		1,800
Property, plant and equipment, net	8,474		8,193
Goodwill	1,921		1,909
Other intangible assets subject to amortization, net	225		277
Other intangible assets not subject to amortization	29,756		29,755
Other assets	301		197
Total assets	$ 43,166	$	42,929
Liabilities and shareholders' equity			
Current liabilities:			
Accounts payable	$ 283	$	323
Deferred revenue and subscriber related liabilities	100		86
Payables to affiliated parties	228		176
Accrued programming expense	309		305
Other current liabilities	784		776
Total current liabilities	1,704		1,666
Long-term debt	4,898		5,964
Mandatorily redeemable preferred equity of a subsidiary	2,400		2,400
Deferred income tax obligations, net	13,339		12,862
Other liabilities	130		141
Minority interests	696		635
Mandatorily redeemable Class A Common Stock, $0.01 par value, 48 shares issued and outstanding as of December 31, 2004; no shares issued or outstanding as of December 31, 2003	1,065		-
Shareholders' equity			
Class A Common Stock, $0.01 par value, 877 shares issued and outstanding as of December 31, 2004; 925 shares issued and outstanding at December 31, 2003	-		-
Class B Common Stock; $0.01 par value; 75 shares issued and outstanding as of December 31, 2004 and December 31, 2003	-		-
Paid-in capital	17,743		18,821
Accumulated other comprehensive loss, net	(4)		(3)
Retained earnings	1,195		443
Total shareholders' equity	18,934		19,261
Total liabilities and shareholders' equity	$ 43,166	$	42,929

The accompanying notes are an integral part of the consolidated financial statements.

	Year ended December 31, 2004	2003 (in millions)	2002
Revenues			
Subscriptions:			
Video	$ 6,180	$ 5,810	$ 5,365
High-speed data	1,760	1,422	1,009
Digital phone	29	1	-
Advertising	515	466	661
Total revenues[(a)]	8,484	7,699	7,035
Costs and expenses:			
Cost of revenues[(a)]	3,723	3,343	3,033
Selling, general and administrative expenses[(a)]	1,483	1,376	1,304
Depreciation	1,438	1,403	1,207
Amortization	76	58	7
Impairment of goodwill	-	-	10,550
Gain on sale of cable system	-	-	(6)
Total costs and expenses	6,720	6,180	16,095
Operating income (loss)	1,764	1,519	(9,060)
Interest expense, net[(a)]	(465)	(492)	(385)
Income from equity investments, net	40	32	12
Minority interest expense, net	(64)	(65)	(118)
Other income (expense)	11	-	(420)
Income (loss) before income taxes, discontinued operations and cumulative effect of accounting change	1,286	994	(9,971)
Income tax provision	(534)	(412)	(283)
Income (loss) before discontinued operations and cumulative effect of accounting change	752	582	(10,254)
Income from discontinued operations, net of tax	-	150	848
Cumulative effect of accounting change	-	-	(27,971)
Net income (loss)	$ 752	$ 732	$ (37,377)

(a) Includes the following income (expenses) from transactions with related companies:

	Year ended December 31, 2004	2003 (in millions)	2002
Revenues	$ 115	$ 125	$ 190
Cost of revenues	(668)	(631)	(608)
Selling, general and administrative	23	5	(21)
Interest expense, net	(168)	(135)	(17)

The accompanying notes are an integral part of the consolidated financial statements.

Time Warner Cable Inc.
Consolidated Statement of Cash Flows

	Year ended December 31, 2004	2003	2002
		(in millions)	
Operating activities:			
Net income (loss)[a]	$ 752	$ 732	$ (37,377)
Adjustments for non-cash and non-operating items:			
Cumulative effect of accounting change [b]	-	-	27,971
Depreciation and amortization	1,514	1,461	1,214
Impairment of goodwill	-	-	10,550
Impairment of equity investments	-	-	420
Gain on sale or exchange of cable systems	-	-	(6)
Income from equity investments	(40)	(32)	(12)
Minority interest expense, net	64	65	118
Deferred income taxes	477	(488)	(255)
Changes in operating assets and liabilities:			
Receivables	42	67	61
Accounts payable and other liabilities	(1)	164	271
Other changes	(147)	113	96
Adjustments relating to discontinued operations	-	46	(459)
Cash provided by operating activities	2,661	2,128	2,592
Investing activities:			
Capital expenditures	(1,712)	(1,637)	(1,813)
Investments and acquisitions	(107)	(146)	(246)
Proceeds from disposal of property, plant and equipment	3	10	7
Cash used by investing activities of discontinued operations	-	(157)	(345)
Cash used by investing activities	(1,816)	(1,930)	(2,397)
Financing activities:			
(Repayments) borrowings, net[c]	(1,059)	(720)	602
(Distributions) contributions, net	(13)	22	21
Cash used by financing activities of discontinued operations	-	(211)	(44)
Cash (used) provided by financing activities	(1,072)	(909)	579
(Decrease) increase in cash and cash equivalents	(227)	(711)	774
Cash and cash equivalents at beginning of period [d]	329	1,040	94
Cash and cash equivalents at end of period	$ 102	$ 329	$ 868

(a) Includes income from discontinued operations of $150 million and $848 million for the years ended December 31, 2003 and 2002, respectively.

(b) Includes cumulative effect of accounting change for discontinued operations of $4.996 billion for the year ended December 31, 2002.

(c) Gross borrowings and repayments were $1.670 billion and $2.722 billion, respectively, for the year ended December 31, 2004. Gross borrowings and repayments subsequent to the restructuring of Time Warner Entertainment Company, L.P. were $2.575 billion and $2.730 billion, respectively, for the nine months ended December 31, 2003.

(d) Includes cash and cash equivalents from discontinued operations of $172 million at January 1, 2003.

The accompanying notes are an integral part of the consolidated financial statements.

Time Warner Cable Inc.
Consolidated Statement of Shareholders' Equity and Attributed Net Assets

	Attributed Net Assets	Common Stock	Paid-in Capital	Retained Earnings	Total
			(in millions)		
Balance at January 1, 2002	$ 74,564	$ -	$ -	$ -	$ 74,564
Reallocation of goodwill to other segments of Time Warner Inc. upon adoption of FAS 142	(8,063)	-	-	-	(8,063)
Net loss	(37,377)	-	-	-	(37,377)
Foreign currency translation adjustments	35	-	-	-	35
Realized and unrealized losses on equity derivative financial instruments (net of $9 million tax benefit)	(13)	-	-	-	(13)
Unrealized gains on marketable securities (net of $3 million tax provision)	5	-	-	-	5
Minimum pension liability adjustment (net of $82 million tax benefit)	(124)	-	-	-	(124)
Comprehensive loss	(37,474)	-	-	-	(37,474)
Dilution of interest in Time Warner Entertainment Company, L.P. (net of $276 million tax benefit)	(414)	-	-	-	(414)
Allocations to Time Warner Inc., net[a]	(422)	-	-	-	(422)
Balance at December 31, 2002	28,191	-	-	-	28,191
Net income	289	-	-	-	289
Foreign currency translation adjustments	30				30
Realized and unrealized losses on equity derivative financial instruments (net of $1 million tax benefit)	1				1
Unrealized gains on marketable securities (net of $1 million tax provision)	(1)				(1)
Comprehensive income	319	-	-	-	319
Allocation of purchase price in connection with the restructuring of the Time Warner Entertainment Company, L.P.	3,242	-	-	-	3,242
Distribution of non-cable businesses of Time Warner Entertainment Company, L. P. to a subsidiary of Time Warner Inc.[b]	(14,478)	-	-	-	(14,478)
Conversion of partners capital to manditorily redeemable preferred equity in connection with the Time Warner Entertainment Company, L.P. restructuring	(2,400)	-	-	-	(2,400)
Allocations from Time Warner Inc., net[a]	2,261	-	-	-	2,261
Conversion of attributed net assets into paid-in capital and retained earnings in connection with the restructuring of Time Warner Entertainment Company, L.P.	(17,135)	-	17,208	(73)	-
Balance at March 31, 2003	-	-	17,208	(73)	17,135
Net income	-	-	-	443	443
Reversal of minimum pension liability (net of $47 million tax benefit)	-	-	-	70	70
Comprehensive income	-	-	-	513	513
Allocations from Time Warner Inc., net[a]	-	-	1,613	-	1,613
Balance at December 31, 2003	-	-	18,821	440	19,261
Net income	-	-	-	752	752
Minimum pension liability adjustment (net of $1 million tax benefit)	-	-	-	(1)	(1)
Comprehensive income	-	-	-	751	751
Reclassification of 48 shares of Class A Common Stock to mandatorily redeemable Class A Common Stock at fair value[c]	-	-	(1,065)	-	(1,065)
Allocations to Time Warner Inc., net[a]	-	-	(13)	-	(13)
Balance at December 31, 2004	$ -	$ -	$ 17,743	$ 1,191	$ 18,934

(a) Prior to the restructuring of Time Warner Entertainment Company, L.P. ("TWE") completed on March 31, 2003, the amount represents the allocation of certain assets and liabilities (primarily debt and tax related balances) from Time Warner Inc. to Time Warner Cable Inc. and the reclassification of certain historical related party accounts between Time Warner Inc. and Time Warner Cable Inc. that were settled as part of the restructuring of TWE. For periods subsequent to the restructuring of TWE, the amount primarily represents a change in the Company's accrued liability payable to Time Warner Inc. for vested employee stock options.

(b) Amount includes the accumulated other comprehensive income of the non-cable businesses of TWE of $3 million, net of tax.

(c) Refer to note 2 for discussion of the Tolling and Optional Redemption Agreement with Comcast Corporation.

The accompanying notes are an integral part of the consolidated financial statements.

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Description of Business

Time Warner Cable Inc. ("TWC" or the "Company") is the second largest cable operator in the United States (in terms of subscribers served). TWC managed approximately 10.9 million basic cable subscribers (including approximately 1.6 million subscribers of unconsolidated investees) at December 31, 2004, in highly clustered and upgraded systems in 27 states. TWC was formed as part of the restructuring of Time Warner Entertainment Company, L.P. ("TWE"), completed on March 31, 2003 (the "TWE Restructuring"), as described below. Time Warner Inc. ("Time Warner") currently holds a 79% economic interest in TWC's business and the remaining 21% economic interest is held by trusts established for the benefit of Comcast Corporation (Comcast Corporation, its affiliates and disposition trusts established for its benefit, "Comcast"). The financial results of the operations of TWC are consolidated by Time Warner.

TWC offers three basic products — video, high-speed data and its newest service, Digital Phone. Video is TWC's largest product in terms of revenues generated; however, the growth of its customer base for video cable service is limited, as the customer base has matured and industry-wide competition from direct-to-home satellite services has increased. Nevertheless, TWC is continuing to increase its video revenue through its offerings of advanced digital video services. Digital video, video-on-demand, subscription-video-on-demand and digital video recorders are available in all of the Company's 31 divisions. TWC's digital video subscriber base provides a broad base of potential customers for these advanced services. Video programming costs represent a major component of TWC's expenses and continue to rise across the sector, especially for sports programming.

High-speed data service has been one of TWC's fastest-growing products over the past several years and is a key driver of its results. However, the rate of subscriber growth has begun to slow, reflecting increasing penetration rates and increased competition from digital subscriber lines (DSL).

TWC's new voice product, Digital Phone, had been launched in all of its divisions by December 31, 2004, and was available to over two-thirds of TWC's homes passed. Digital Phone provides unlimited local, in-state and domestic long distance calling, as well as call waiting, caller ID, voice mail and enhanced "911" services, for a fixed monthly fee. Digital Phone enables TWC to offer its customers a combined, easy-to-use package of video, high-speed data and voice services and to compete effectively against similar bundled products offered by competitors.

In addition to the subscription services described above, TWC also earns revenue by selling advertising time to national, regional and local businesses.

Basis of Presentation

Summary

TWC was formed in March 2003 in connection with the TWE Restructuring, as described below. TWC is the successor to the cable related businesses previously conducted through TWE and TWI Cable Inc. ("TWI Cable") (a wholly owned subsidiary of Time Warner). Prior to the TWE Restructuring, both TWE and TWI Cable were consolidated by Time Warner; however, Comcast owned approximately 28% of TWE. In addition to the cable businesses, TWE owned and operated certain non-cable businesses, including Warner Bros. and Home Box Office. As part of the TWE Restructuring, (i) substantially all of TWI Cable and TWE were acquired by TWC, (ii) TWE's non-cable businesses were distributed to Time Warner, (iii) Time Warner acquired an incremental stake in the combined cable operation from Comcast in exchange for mandatorily convertible preferred stock of Time Warner, (iv) TWC repaid $2.1 billion of pre-existing indebtedness to an affiliate of Comcast and (v) Comcast exchanged a portion of its ownership interest in TWE for an increased ownership interest in TWC.

Subsequent to the TWE Restructuring, Comcast's approximate 21% economic interest in TWC is held through a 17.9% direct common ownership interest in TWC (representing a 10.7% voting interest) and a limited partnership interest in TWE (representing a 4.7% residual equity interest). Time Warner's approximately 79% economic interest in TWC is held through an 82.1% common ownership interest in TWC (representing an 89.3% voting interest) and a limited partnership interest in TWE (representing a 1% residual equity interest). Time Warner also holds a $2.4 billion mandatorily redeemable preferred equity interest in TWE. In connection with the TWE Restructuring, Time Warner effectively increased its economic ownership interest in TWE from approximately 73% to 79%. This acquisition by Time Warner of this additional 6% interest in TWE, as well as Comcast's exchange of a portion of its interest in TWE for a 17.9% interest in TWC, were accounted for at fair value as step acquisitions.

The TWC financial statements for all periods prior to the TWE Restructuring represent the combined consolidated financial statements of TWE and TWI Cable (entities under the common control of Time Warner). The financial statements include all push-down accounting resulting from the merger of America Online, Inc. ("America Online") and Historic TW Inc. (formerly named Time Warner Inc.) (the "America Online-Historic TW merger") and treat the economic stake in TWE that was held by Comcast as a minority interest. The operating results of all non-cable business of TWE have been reflected as a discontinued operation. Additionally, the income tax provisions, related tax payments, and current and deferred tax balances have been presented as if TWC operated as a stand-alone taxpayer.

Restructuring of Time Warner Entertainment Company, L.P.

On March 31, 2003, Time Warner and Comcast completed the TWE Restructuring. As a result of the TWE Restructuring, Time Warner acquired complete ownership of TWE's content businesses, including Warner Bros., Home Box Office, and TWE's interests in The WB Network, Comedy Central (which was subsequently sold) and the Courtroom Television Network (collectively, the "Non-cable Businesses"). Additionally, all of Time Warner's interests in the cable television systems, including those that were wholly-owned and those that were held through TWE, are now controlled by TWC. As part of the TWE Restructuring, Time Warner received an approximate 79% economic interest in TWC's cable systems. TWE is now a subsidiary of TWC, with TWC indirectly holding 94.3% of TWE's residual equity interest.

Prior to the TWE Restructuring, a majority of Time Warner's interests in its cable and filmed entertainment segments, and a portion of its interests in its networks segment, were held through TWE. Time Warner owned general and limited partnership interests in TWE consisting of 72.36% of the pro rata priority capital and residual equity capital, and 100% of the junior priority capital. Comcast held the remaining 27.64% limited partnership interests in TWE.

In the TWE Restructuring: (i) Comcast received Time Warner mandatorily convertible preferred stock, which converted automatically on March 31, 2005 into $1.5 billion of Time Warner Common Stock; (ii) Comcast retained an approximate 21% economic interest in TWC's cable systems; and (iii) TWC repaid $2.1 billion of pre-existing debt to an affiliate of Comcast.

In connection with the TWE Restructuring, Comcast received (1) customary registration rights relating to its 17.9% interest in the common stock of TWC and (2) the right, at any time following March 31, 2005, to require TWC or Time Warner to purchase all or a portion of Comcast's 4.7% limited partnership interest in TWE at an appraised fair market value. The purchase price for Comcast's limited partnership interest may be paid in cash, Time Warner or TWC Common Stock (if TWC Common Stock is then publicly traded) or a combination of cash and stock. Following March 31, 2005, Comcast also has the right to sell all or a portion of its interest in TWE to a third party, subject to rights of first refusal by Time Warner and TWC. As of April 15, 2005, Comcast has not exercised its right to require TWC or Time Warner to purchase all or a portion of its 4.7% limited partnership interest in TWE. On December 29, 2003, TWC received notice from Comcast requesting that TWC start the registration process under the Securities Act of 1933 for the sale in a firm underwritten offering of Comcast's 17.9% common interest in TWC. See Note 2 for discussion of the Comcast Tolling and Optional Redemption Agreement and Note 14 for additional information on the registration process.

The additional ownership interests acquired by Time Warner in the TWE Restructuring have been accounted for as a step acquisition, with total purchase consideration of $4.653 billion. Of the $4.653 billion purchase consideration, approximately $1.403 billion relates to the additional interest acquired in TWE's cable businesses which has been pushed down to TWE. This consideration consisted primarily of the repayment of pre-existing debt of TWC to an affiliate of Comcast and the issuance of mandatorily convertible preferred stock, as well as an interest in certain cable systems that were previously wholly owned by Time Warner with an approximate fair value of $1.0 billion.

The purchase consideration has been allocated to the tangible and intangible assets as follows (in millions):

Tangible net assets	$ 520
Cable franchises	812
Subscriber lists	68
Goodwill	3
Purchase Consideration Allocated to TWE's continuing operations	1,403
Purchase Consideration Allocated to TWE's discontinued operations	3,250
Total Purchase Consideration Allocated to TWE	$ 4,653

The fair value of the cable franchises was determined using both a discounted cash flow and a residual value methodology. Significant assumptions inherent in a discounted cash flow methodology include estimates of cash flows and discount rates. The assumptions about future cash flows and growth rates were based on the Company's budget and long-term plans. Discount rate assumptions are based on an assessment of the risk inherent in the respective intangible assets. In addition, it was assumed that existing cable franchise agreements would be renewed without material modification to the underlying existing terms and conditions and without incurring substantial cost. Under the residual value method, the fair value of the cable franchise intangible asset was determined to be the difference between the estimated fair value of the incremental 6% interest in TWE acquired and the fair value of remaining cable net assets acquired (including intangible assets other than cable franchise intangible assets). The traditional discounted cash flow method (as determined by an independent valuation specialist) provided a range for the value of the cable franchise intangible asset and the residual value method fell within that range. Pursuant to Emerging Issues Task Force Topic D-108, "*Use of the Residual*

Method to Value Acquired Assets Other Than Goodwill" ("Topic D-108"), the Company utilized a discounted cash flow methodology in assessing the current fair value of the cable franchise intangible assets, which did not result in an impairment in 2004.

In conjunction with the TWE Restructuring, Comcast's book basis in TWC was stepped up to its estimated fair value. The fair value adjustment of $2.362 billion is reflected as an increase in cable franchise intangibles ($2.170 billion) and subscriber lists ($192 million), with a corresponding increase to contributed capital. The fair value of the Comcast interest was estimated using a combination of a discounted cash flow analysis and a review of market comparisons and recent transactions. The assumptions about future cash flows and growth rates were based on the Company's budget and long-term plans. The discount rates used were based upon an assessment of the risk inherent in the cash flows.

In addition to the allocations above, the Company has recorded approximately $1.906 billion of deferred tax liabilities and a corresponding increase in goodwill for deferred tax liabilities related to the above intangible assets.

As a result of Time Warner's acquisition of TWE's Non-cable Businesses (through its wholly-owned subsidiary, Warner Communications Inc.), the Company has presented the TWE Non-cable Businesses as discontinued operations for all periods presented. Revenues from the discontinued operations of the TWE Non-cable Businesses totaled $2.780 billion (three months) and $10.722 billion for the years ended December 31, 2003 and 2002, respectively. Net income (loss) from the discontinued operations of the TWE Non-cable Businesses totaled $150 million (three months) and $(4.262) billion for the years ended December 31, 2003 and 2002, respectively.

Time Warner Interactive Video Group, Inc.

On December 31, 2003, in connection with the restructuring by Time Warner of its Time Warner Interactive Video Group Inc. ("IVG"), TWC entered into a stock purchase agreement with a subsidiary of Time Warner to purchase all of the outstanding stock of IVG at a purchase price of $7.5 million. IVG was established by Time Warner in 2001 to accelerate the growth of interactive television and to develop certain advanced cable services. The consolidated financial statements of the Company have been restated to include the historical operations of IVG for all periods presented because the transfer of IVG to TWC was a transfer of assets under common control by Time Warner. IVG's operating losses were $60 million and $30 million for the years ended December 31, 2003 and 2002. IVG had net assets of $7 million as of December 31, 2003.

Time Warner Allocations

For periods prior to the TWE Restructuring, the consolidated financial statements of TWC reflect, in continuing operations, the cable businesses of TWE and TWI Cable, both of which were under the common control of Time Warner. The consolidated financial statements include all assets, liabilities, revenues, expenses and cash flows directly attributable to TWC, as well as allocations of certain Time Warner corporate items which, in the opinion of TWC management, are reasonably and appropriately allocable to the activities of the Company. The principal allocation methodologies are described below.

1. The income tax benefits and provisions, related tax payments, and current and deferred tax balances were prepared as if TWC operated as a stand-alone taxpayer for all periods presented.

2. A portion of Time Warner's debt was allocated to TWC based upon the level of debt assumed as part of the TWE Restructuring and TWC's historical cash flow.

3. The historical management fees paid by TWE to Time Warner were allocated to TWC using a pro rata allocation between the TWE cable and Non-cable Businesses (based on consolidated operating income (loss) before depreciation of tangible assets, amortization of intangible assets and impairment write-downs related to goodwill and other intangible assets).

4. The minority interest expense included in the accompanying consolidated statement of operations includes an allocated portion of Time Warner's total minority interest expense related to Comcast's ownership percentage in TWE's cable business prior to the TWE Restructuring.

Discontinued Operations of TWE-Advance/Newhouse Partnership

On June 24, 2002, TWE and Advance/Newhouse agreed to restructure the TWE-Advance/Newhouse partnership ("TWE-A/N"), which, on August 1, 2002 (the "Debt Closing Date"), resulted in Advance/Newhouse assuming responsibility for the day-to-day operations of certain TWE-A/N cable systems serving approximately 2.1 million subscribers located primarily in Florida (the "A/N Systems"). On the Debt Closing Date, Advance/Newhouse and its affiliates assumed and repaid approximately $780 million of TWE-A/N's senior indebtedness. As a result, TWE deconsolidated the financial position and operating results of these systems as of the Debt Closing Date. Additionally, all prior period results associated with the A/N Systems, including the historical minority interest allocated to Advance/Newhouse's interest in TWE-A/N, have been reflected as a discontinued operation for all periods presented. Revenues and net income from the discontinued operations of the A/N Systems were $834 million and $114 million, respectively, in 2002 (seven months).

Restructuring of Road Runner

In conjunction with the 2002 TWE-A/N restructuring, TWC effectively acquired Advance/Newhouse's ownership interest in Road Runner. As a result of this acquisition and the concurrent termination of Advance/Newhouse's minority veto rights in Road Runner, the Company consolidated the financial position and results of operations of Road Runner retroactive to the beginning of 2002. Previously, the Company accounted for its investment in Road Runner under the equity method of accounting as Advance/Newhouse held certain veto rights that allowed it to participate in the day-to-day operations of the Road Runner business.

Capital Structure

Prior to the completion of the TWE Restructuring on March 31, 2003, the Company's operations were held in TWE and various other subsidiaries of Time Warner in which TWE did not have any ownership. The TWC financial statements for periods prior to the completion of the TWE Restructuring, however, reflect all assets, liabilities, revenue and expenses directly attributable to the Company's historical operations. Therefore, the Company's equity for all periods prior to the completion of the TWE Restructuring has been characterized as attributed net assets. As a result of the TWE Restructuring, all of the Company's operations are now held by the legal entity, Time Warner Cable Inc., and its subsidiaries. Therefore, for periods after the TWE Restructuring, the Company's equity is presented in its various components of common stock, additional paid-in capital, and retained earnings.

As part of the TWE Restructuring, the outstanding capital stock of the Company was recapitalized into 925 shares of Class A Common Stock and 75 shares of Class B Common Stock on March 31, 2003. Upon completion of the TWE Restructuring, Time Warner holds, directly or indirectly, 746 shares of Class A Common Stock and 75 shares of Class B Common Stock. A trust for the benefit of Comcast holds the remaining 179 shares of Class A Common Stock. TWC authorized 1,000 shares of preferred stock; however, no preferred shares have been issued, nor does the Company have any current plans to issue any preferred shares.

Each share of Class A Common Stock votes as a single class with respect to the election of Class A directors, which are required to represent not less than one-sixth of the Company's directors and not more than one-fifth and, in any event, not less than one, of the Company's directors. Each share of the Company's Class B Common Stock votes as a single class with respect to the election of Class B directors, which are required to represent not less than four-fifths of the Company's directors. Each share of Class B Common Stock issued and outstanding generally has ten votes on any matter submitted to a vote of the stockholders, and each share of Class A Common Stock issued and outstanding has one vote on any matter submitted to a vote of stockholders. Except for the voting rights characteristics described above, there are no differences between the Class A and Class B Common Stock. The Class A Common Stock and the Class B Common Stock will generally vote together as a single class on all matters submitted to a vote of the stockholders except with respect to the election of directors. The Class B Common Stock is not convertible into the Company's Class A Common Stock. As a result of its shareholdings, Time Warner has the ability to cause the election of all Class A and Class B directors.

As discussed in Note 2, pursuant to the Tolling and Optional Redemption Agreement dated September 24, 2004, Comcast has been granted an option which can be exercised between December 1, 2004 and April 1, 2005, to require TWC to redeem a portion of its Class A Common Stock held by Comcast in exchange for a TWC subsidiary holding cable systems serving approximately 90,000 basic subscribers, plus approximately $750 million in cash. The Company has reclassified the redemption value of its Class A Common Stock subject to this option ($1.065 billion) from shareholders' equity to mandatorily redeemable Class A Common Stock. See Note 14 for additional information on the Tolling and Optional Redemption Agreement.

Reclassifications

Certain reclassifications have been made to the prior years' financial information to conform to the December 31, 2004 presentation.

2. RECENT BUSINESS TRANSACTIONS AND DEVELOPMENTS

America Online, Inc. Agreement

In the first quarter of 2005, TWC and America Online, Inc. ("AOL") (a segment of Time Warner) announced a strategic agreement to develop a customized broadband offering with attractive pricing for their current Road Runner and AOL subscribers as well as prospects across the TWC coverage area. The Road Runner service will continue to be available on a stand-alone basis for those subscribers who elect not to take the new offering. This agreement will allow AOL to proactively migrate its subscribers to the customized broadband offering and also to share in future subscriber revenues generated. Under the agreement, AOL will manage the advertising and search opportunities for both the new offering and the Road Runner portal, providing an increase in its audience size and potential to earn from online advertising, search, commerce and premium services. The agreement should benefit TWC in 2005 in accelerating its acquisition of high-speed data subscribers and provide its high-speed data customers additional value through access to AOL's programming and features. TWC will also share in a portion of the advertising revenues generated.

Comcast Tolling and Optional Redemption Agreement

On September 24, 2004, TWC entered into a Tolling and Optional Redemption Agreement (the "Agreement") with Comcast. Pursuant to the Agreement, Comcast was granted an option (the "Option"), which originally could be exercised between December 1, 2004 and April 1, 2005, to require TWC to redeem a portion of its Class A Common Stock held by Comcast in exchange for the stock of a TWC subsidiary holding cable systems serving approximately 90,000 basic cable subscribers and approximately $750 million in cash. The Agreement was amended in February 2005 to extend the expiration date of the Option to 60 days following notice by either TWC or Comcast or, after April 1, 2005, immediately if Comcast irrevocably elects not to exercise the Option. Closing of the transactions contemplated by the Agreement is subject to the exercise of the Option, required governmental and regulatory approvals and other customary closing conditions. As of the date of this report, Comcast has not exercised the Option.

Comcast currently owns an effective interest of approximately 21% in TWC's business – held through a 17.9% common stock interest in TWC and a 4.7% limited partnership interest in TWE. If the Option is exercised, Comcast will reduce its current 21% effective interest in TWC's business to approximately 17% – consisting of a 13.7% common stock interest in TWC and a 4.7% limited partnership interest in TWE. Other than as provided in the Agreement, Comcast cannot require TWC to purchase its interest in TWC. As previously discussed, in connection with the TWE Restructuring, Comcast received the right, at any time following March 31, 2005, to require TWC or Time Warner to purchase all or a portion of Comcast's 4.7% limited partnership interest in TWE at appraised fair market value. Under the arrangements entered into by Comcast as part of the process of obtaining FCC approval of Comcast's acquisition of AT&T Broadband, Comcast is obligated to take steps to dispose of its entire interest in TWC and TWE in an orderly process by November 2007, and in any event by May 2008.

Upon entering into the Agreement, no cash consideration was exchanged between the Company and Comcast; however, the Company has reclassified the redemption value of its Class A Common Stock subject to the Option ($1.065 billion) from shareholders' equity to mandatorily redeemable Class A Common Stock. If the Option is exercised, the Company would account for the transaction as a sale of cable systems and a payment of $750 million in cash for the redemption of a portion of the stock in TWC held by Comcast. A gain or loss would be recognized based on the difference in the fair value of the cable systems transferred to Comcast and the Company's book basis in such systems. In addition, Time Warner would apply purchase accounting to the portion of the interest acquired from Comcast. This purchase accounting would be pushed down to TWC.

The Agreement, as amended, provides that Comcast will not exercise or pursue registration rights with respect to the TWC stock owned by it until the Option expires. This provision of the Agreement supersedes Comcast's request to TWC in December 2003 to register its TWC stock. See Note 14 for additional information on the Tolling and Optional Redemption Agreement and the registration process.

Adelphia Joint Bid

TWC has submitted a joint bid, along with Comcast, to acquire the assets of Adelphia Communications Corporation ("Adelphia") in connection with the auction process initiated by

Adelphia. See Note 14 for additional information on the status of the Adelphia acquisition process.

Purchase of Urban Cable Works of Philadelphia

Urban Cable Works of Philadelphia, L.P. ("Urban Cable") is an unconsolidated joint venture of TWC, with approximately 50,000 basic subscribers at December 31, 2004, that operates cable television systems in Philadelphia, Pennsylvania. Urban Cable is 40% owned by TWC and 60% owned by an investment group led by Inner City Broadcasting ("Inner City"). Under a management agreement, TWC is responsible for the day-to-day management of Urban Cable. During 2004, TWC and Inner City have settled certain disputes regarding the joint venture for a $34 million cash payment. TWC recorded this settlement payment within selling, general and administrative expenses in 2004.

TWC has also agreed to purchase, subject to receipt of applicable regulatory approvals, all of Inner City's interests in the Urban Cable venture for approximately $53 million in cash. Additionally, upon closing, TWC will eliminate in consolidation $67 million of debt and interest owed to it by Urban Cable and will assume $53 million of Urban Cable's third-party debt. On March 3, 2005, the City Council of Philadelphia denied TWC's request for approval of this transaction. TWC believes the denial was invalid, but is unable to predict when the transaction may be completed. For the year ended December 31, 2004, Urban Cable's revenues and Operating Income were $47 million and $3 million, respectively. See Note 14 for additional information on the purchase of Urban Cable.

Joint Venture Restructuring

On May 1, 2004, the Company completed the restructuring of two joint ventures that it manages, Kansas City Cable Partners ("KCCP"), previously a 50-50 joint venture between Comcast and TWE, and Texas Cable Partners, L.P. ("TCP"), previously a 50-50 joint venture between Comcast and the TWE-Advance/Newhouse Partnership ("TWE-A/N"), a subsidiary of TWE. Prior to the restructuring, the Company accounted for its investment in these joint ventures using the equity method. As a result of the restructuring, KCCP was merged into TCP, which was renamed "Texas and Kansas City Cable Partners, L.P." Texas and Kansas City Cable Partners, L.P. served approximately 1.5 million basic video subscribers at December 31, 2004. Following the restructuring, the combined partnership was owned 50% by Comcast and 50% by TWE and TWE-A/N, collectively. Since the net assets of the combined partnership were owned 50% by TWC and 50% by Comcast both before and after the restructuring and there were no changes in the rights or economic interests of either party, the Company viewed the transaction as a non-substantive reorganization to be accounted for at book value, similar to the transfer of assets under common control. In February 2005, TWE's interest in the combined partnership was contributed to TWE-A/N in exchange for preferred equity in TWE-A/N. The Company continues to account for its investment in the restructured joint venture using the equity method. Beginning on June 1, 2006, either TWC or Comcast can trigger a dissolution of the partnership. If a dissolution is triggered, the non-triggering party has the right to choose and take full ownership of one of two pools of the combined partnership's systems — one pool consisting of the Houston systems and the other consisting of the Kansas City, Southwest Texas and New Mexico systems — with an arrangement to distribute the partnership's debt between the two pools. The party triggering the dissolution would own the remaining pool of systems and any debt associated with that pool. See Note 14 for additional information on the joint venture restructuring.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

Cash and cash equivalents include money market funds, overnight deposits 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.

Accounting for Investments

Investments in companies in which TWC has significant influence, but less than a controlling voting interest, are accounted for using the equity method. Significant influence is generally presumed to exist when TWC owns between 20% and 50% of the investee. The effect of any changes in TWC ownership interests resulting from the issuance of capital by consolidated subsidiaries or unconsolidated cable television system joint ventures to unaffiliated parties is included as an adjustment to shareholders' equity or attributed net assets (for periods prior to the TWE Restructuring).

Following the restructuring of Road Runner in the third quarter of 2002, TWC has consolidated the financial position and results of operations of Road Runner retroactive to the beginning of 2002.

Revenues and Costs

Cable revenues are principally derived from video, high-speed data and Digital Phone subscriber fees and advertising. Subscriber fees are recorded as revenue in the period the service is provided and advertising revenues, including those from advertising purchased by programmers, are recognized in the period that the advertisements are exhibited. Video programming, high-speed data and Digital Phone costs are recorded as the services are provided. Video programming costs are based on the Company's contractual agreements with the programming vendors. These contracts are generally multi-year agreements that provide for the Company to make payments to the programming vendors at agreed upon rates based on the number of subscribers to which the Company provides the service. Launch fees received by the Company from programming vendors are recognized as a reduction of expenses over the life of the related programming arrangement. Amounts received from programming vendors representing the reimbursement of marketing costs are recognized as a reduction of marketing expenses in the period that such reimbursements are received.

Advertising costs are expensed upon the first exhibition of related advertisements. Marketing expense (including advertising), net of reimbursements from programmers, was $285 million in 2004, $240 million in 2003 and $223 million in 2002.

Gross Versus Net Revenue Recognition

In the normal course of business, TWC acts as an intermediary or agent with respect to payments received from third parties. For example, TWC collects taxes on behalf of franchising authorities. The accounting issue encountered in these arrangements is whether TWC should report revenue based on the "gross" amount billed to the ultimate customer or on the "net" amount received from the customer after payments to franchising authorities. The Company has determined that these amounts should be reported on a "gross" basis.

Determining whether revenue should be reported gross or net is based on an assessment of whether TWC is acting as the "principal" in a transaction or acting as an "agent" in a transaction. To the extent TWC acts as a principal in a transaction, TWC reports as revenue the payments received on a gross basis. To the extent TWC acts as an agent in a transaction, TWC reports as revenue the payments received less commissions and other payments to third parties on a net basis. The determination of whether TWC serves as principal or agent in a transaction is subjective in nature and based on an evaluation of the terms of each arrangement. In determining whether TWC serves as principal or agent in these arrangements, TWC follows the guidance in Emerging Issues Task Force ("EITF") 99-19, "*Reporting Revenue Gross as a Principal versus Net as an Agent.*"

Multiple-Element Arrangements

In the normal course of business, TWC enters into multiple-element transactions where it is simultaneously a customer and a vendor with the same counter-party (multiple element transactions). For example, when negotiating the terms of programming purchase contracts from cable networks, TWC may simultaneously negotiate for the sale of advertising to the cable network. These arrangements may be documented in one contract or may be documented in separate contracts. Whether it is in one contract or multiple contracts, these arrangements are considered to have been negotiated simultaneously for accounting purposes. In accounting for these types of arrangements, TWC recognizes revenue and expense in accordance with the following authoritative literature:

- APB Opinion No. 29, "*Accounting for Nonmonetary Transactions;*"
- EITF 01-09, "*Accounting for Consideration Given by a Vendor to a Customer;*"
- EITF 00-21, "*Revenue Arrangements with Multiple Deliverables;*" and
- Securities and Exchange Commission Staff Accounting Bulletin No. 104: *"Revenue Recognition"*.

Additionally, in November 2002, the EITF reached a consensus on EITF 02-16, "*Accounting for Consideration Received from a Vendor by a Customer.*" Specifically, EITF 02-16 presumes that cash consideration received from a vendor, such as a cable network programmer, is a reduction in the price to use the vendor's products or services and therefore a reduction in the associated cable programming cost. However, this presumption is overcome when the cash consideration represents a payment for assets or services, such as advertising delivered to the vendor, in which case the cash consideration should be characterized as revenue when recognized in a customer's income statement. In addition, EITF 02-16 states that cash consideration paid by a vendor which exceeds the estimated fair value of the benefits, such as advertising received by the vendor, should be characterized in the customer's income statement as a reduction of cost of sales or programming expense. The guidance in EITF 02-16 is consistent with our historical accounting.

With respect to programming and vendor advertising arrangements being negotiated simultaneously with the same cable network, TWC assesses whether each element of the arrangements was negotiated at fair value. The factors that we considered in determining the individual fair values of the programming and advertising varied from arrangement to arrangement and included:

- existence of a "most-favored-nation" clause or comparable assurances as to fair market value with respect to programming;
- comparison to fees under a prior contract;
- comparison to fees paid for similar networks; and
- comparison to advertising rates paid by other advertisers.

Accounting for Goodwill and Other Intangible Assets

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement No. 141, "*Business Combinations*" and Statement No. 142 "*Goodwill and Other Intangible Assets*" ("FAS 142"). These standards changed the accounting for business combinations by, among other things, prohibiting the prospective use of pooling-of-interests accounting. In addition, FAS 142 required 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, ceased being amortized. The new rules also required that goodwill and certain other intangible assets be assessed for impairment using fair value measurement techniques. See Note 6 for further discussion of the adoption of FAS 142.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. The Company incurs expenditures associated with the construction and maintenance of its cable systems. Costs associated with the construction of the cable transmission and distribution facilities and new cable service installations are capitalized. TWC capitalizes expenditures for fixed assets having a useful life of greater than one year. Capitalized costs typically include direct material, direct labor, overhead and, in some cases, interest. Sales and marketing costs, as well as the costs of repairing or maintaining existing fixed assets, are expensed as incurred. Common types of capitalized expenditures include plant upgrades, drops (i.e., customer installations), converters and cable modems. With respect to customer premise equipment, including converters and cable modems, TWC capitalizes direct installation charges only upon the initial deployment of such assets. All costs incurred in subsequent disconnects and reconnects are expensed as incurred. Depreciation on these assets is provided generally using the straight-line method over their estimated useful life (three to five years).

Property, plant and equipment consist of:

	As of December 31, 2004	As of December 31, 2003	Estimated Useful Lives
	(in millions)		
Land, buildings and improvements[a]	$ 556	$ 508	5-20 years
Distribution systems[b]	10,168	9,449	3-16 years
Vehicles and other equipment	1,066	853	3-10 years
Construction in progress	603	525	
	12,393	11,335	
Less: Accumulated depreciation	(3,919)	(3,142)	
Total	$ 8,474	$ 8,193	

(a) Land is not depreciated.

(b) Includes modems and converters.

Computer Software

TWC capitalizes certain costs incurred for the development of internal use software. These costs, which include the costs associated with coding, software configuration, upgrades and major enhancements, are included in property, plant and equipment in the accompanying consolidated balance sheet. Such costs are depreciated on a straight-line basis over 3 to 5 years. These costs, net of accumulated depreciation, totaled $194 million and $149 million as of December 31, 2004 and 2003, respectively.

Long-Lived Assets

The Company periodically reviews the carrying amount of its long-lived assets, including property, plant and equipment, whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. To the extent the estimated future cash inflows attributable to the asset, less estimated future cash outflows, are less than the carrying amount, an impairment loss is recognized to the extent that the carrying amount of such asset is greater than its fair value.

Cable Franchises

Cable franchises include the value attributed to agreements with local authorities that allow access to homes and businesses in cable service areas acquired in connection with a business combination. Following the adoption of FAS 142 in the first quarter of 2002, cable franchises capitalized in purchase business combinations are no longer amortized but are now subject to an annual review for impairment. Other costs incurred to negotiate and renew cable franchise agreements continue to be capitalized and amortized over the term of such franchise agreements.

Stock Options

TWC employees participate in various Time Warner stock option plans. In accordance with Accounting Principles Board Opinion No. 25, "*Accounting for Stock Issued to Employees*" ("APB 25"), and related interpretations, compensation cost for stock options granted to employees 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 over the amount an employee must pay to acquire the stock. Generally, the exercise price for stock options granted to employees equals or exceeds the fair market value of Time Warner Common Stock at the date of grant, thereby resulting in no recognition of compensation expense by the Company. For awards that generate compensation expense as defined under APB 25, the Company calculates the amount of compensation expense and recognizes the expense over the vesting period of the award.

Had compensation expense for Time Warner's stock option plans been determined based on the fair value method set forth in FASB Statement No. 123, "*Accounting for Stock-Based Compensation*" ("FAS 123") (or FAS123R, which will be adopted on July 1, 2005), the Company's net income (loss) would have been changed to the pro forma amounts indicated below:

	Year ended December 31,		
	2004	2003	2002
		(in millions)	
Net income (loss), as reported	$ 752	$ 732	$ (37,377)
Less: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(37)	(70)	(146)
Pro forma net income (loss)	$ 715	$ 662	$ (37,523)

Accounting for Pension Plans

TWC has defined benefit pension plans covering a majority of its employees. Pension benefits are based on formulas that reflect the employees' years of service and compensation during their employment period and participation in the plans. The pension expense recognized by the Company is determined using certain assumptions, including the expected long-term rate of return on plan assets, the discount rate used to determine the present value of future pension benefits and the rate of compensation increases. The determination of these assumptions is discussed in more detail in Note 11.

Income Taxes

TWC is not a separate taxable entity for U.S. federal and various state income tax purposes and its results are included in the consolidated U.S. federal and certain state income tax returns of Time Warner. The income tax benefits and provisions, related tax payments, and current and deferred tax balances have been prepared as if TWC operated as a stand-alone taxpayer for all periods presented in accordance with the tax sharing arrangement between TWC and Time Warner. Under the tax sharing arrangement, TWC is obligated to make tax sharing payments to Time Warner as if it were a separate payer. Income taxes are provided using the liability method required by FASB Statement No. 109, "*Accounting for Income Taxes*". Under this method, income taxes (i.e., deferred tax assets, deferred tax liabilities, taxes currently payable/refunds receivable and tax expense) are recorded based on amounts refundable or payable in the current year and include the results of any difference between U.S. GAAP accounting and tax reporting. Deferred income taxes reflect 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.

Comprehensive Income (Loss)

Comprehensive income (loss), which is reported on the accompanying consolidated statement of shareholders' equity (or attributed net assets for periods prior to the TWE Restructuring) consists of net income (loss) and other gains and losses affecting shareholders' equity or attributed net assets that, under GAAP, are excluded from net income (loss). For TWC, the components of accumulated other comprehensive income (loss) consist of foreign currency translation gains and losses (related to discontinued operations), gains and losses on certain equity derivative financial instruments (related to discontinued operations), unrealized gains and losses on marketable equity investments and any minimum pension liability adjustments.

The following summary sets forth the components of accumulated other comprehensive income (loss):

	Foreign Currency Translation Gains (Losses)	Net Unrealized Gains (Losses) on Marketable Securities	Additional Minimum Pension Liability	Derivative Financial Instruments Gains (Losses)	Accumulated Other Comprehensive Income (Loss)
			(in millions)		
Balance at January 1, 2002	$ 1	$ (4)	$ -	$ -	$ (3)
2002 activity, net of tax benefit	35	5	(124)	(13)	(97)
Balance at December 31, 2002	36	1	(124)	(13)	(100)
2003 activity, net of tax benefit	(36)	(1)	121	13	97
Balance at December 31, 2003	-	-	(3)	-	(3)
2004 activity, net of tax benefit	-	-	(1)	-	(1)
Balance at December 31, 2004	$ -	$ -	$ (4)	$ -	$ (4)

Segments

FASB Statement No. 131, "*Disclosure about Segments of an Enterprise and Related Information,*" requires public companies to disclose certain information about their reportable operating segments. Operating segments are defined as components of an enterprise for which separate financial information is available and is evaluated on a regular basis by the chief operating decision makers in deciding how to allocate resources to an individual segment and in assessing performance of the segment. Since the Company's continuing operations provide a variety of services over the same delivery system, the Company has only one reportable segment.

Use of Estimates

The preparation of the accompanying consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and footnotes thereto. Actual results could differ from those estimates. Estimates are used when accounting for certain items such as allowances for doubtful accounts, investments, depreciation, amortization, asset impairment, nonmonetary transactions and contingencies. Allocation methodologies used to prepare the accompanying consolidated financial statements are based on estimates and have been described in the notes, where appropriate.

4. NEW ACCOUNTING STANDARDS

Use of Residual Method

In September 2004, the EITF issued Topic No. D-108, "*Use of the Residual Method to Value Acquired Assets Other than Goodwill.*" Topic D-108 requires that the direct value method, rather than the residual value method, be used to value intangible assets other than goodwill acquired in business combinations completed after September 29, 2004. Under the residual value method, the fair value of the intangible asset is determined to be the difference between the enterprise value and the fair value of separately identifiable assets; whereas, under the direct value method, all intangible assets are valued separately and directly. Topic D-108 also requires that companies who have applied the residual method to the valuation of intangible assets for purposes of impairment testing shall perform an impairment test using the direct value method on all intangible assets. Impairments resulting from the application of the direct value method and the related tax effects should be reported as a cumulative effect of a change in accounting principle.

Previously, the Company had used both a discounted cash flow and residual value methodology to value cable franchise intangible assets. Pursuant to the provisions of Topic D-108, the Company utilized a traditional discounted cash flow methodology to value intangibles for its December 2004 impairment test. The provisions of Topic D-108 did not affect the consolidated financial statements.

Stock-Based Compensation

In December 2004, the FASB issued FASB Statement No. 123 (Revised), "*Share-Based Payment*" ("FAS 123R"). FAS 123R requires all companies to measure compensation costs for all share-based payments (including employee stock options) at fair value and recognize such costs in the statement of operations. FAS 123R is effective for public companies for periods beginning after June 15, 2005. The Company presently accounts for stock-based compensation using the intrinsic value method set forth in APB 25. In accordance with APB 25 and related interpretations, compensation expense for stock options is generally 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. In accordance with APB 25, compensation cost recognized by the Company was minimal. As a result, the application of the provisions of FAS 123R will have a significant impact to reported net income. See Note 3 for the pro forma impact had compensation costs for the Company's stock option plans been determined based on the fair value method set forth in FAS 123R. The Company will adopt the provisions of FAS 123R on July 1, 2005.

Exchanges of Nonmonetary Assets

In December 2004, the FASB issued FASB Statement No. 153, "*Exchanges of Nonmonetary Assets – an amendment of APB Opinion No. 29*" ("FAS 153"). FAS 153 eliminates the exception to account for nonmonetary exchanges of similar productive assets at carrying value and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance; otherwise, the exchange principal of fair value applies. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. FAS 153 is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The adoption of FASB 153 is not expected to have a significant impact on the Company's consolidated financial statements.

Variable Interest Entities

In January 2003, the FASB issued FASB Interpretation No. 46, "*Consolidation of Variable Interest Entities - an Interpretation of ARB No. 51*" ("FIN 46"), which requires variable interest entities ("VIEs"), often referred to as special purpose entities or "SPEs", to be consolidated if certain criteria are met. FIN 46 was effective upon issuance for all VIEs created after January 31, 2003, and effective July 1, 2003, for VIEs that existed prior to February 1, 2003. During 2003, the FASB delayed the required implementation date of FIN 46 until March 31, 2004 for entities that are not SPEs. In December 2003, the FASB issued a revision of FIN 46 ("FIN 46R") to replace FIN 46. The Company adopted FIN 46R effective March 31, 2004. The adoption of FIN 46R did not have an impact on the Company's consolidated financial statements.

5. RESTRUCTURING COSTS

During the fourth quarter of 2002, the Company incurred and accrued restructuring costs of $15 million, which were included in selling, general and administrative expense, related to the termination of approximately 230 employees across various TWC business units. Additionally, during the fourth quarter of 2003, the Company incurred and accrued restructuring costs of $15 million, which were included in selling, general and administrative expense, related to the termination of approximately 65 IVG employees. TWC has terminated all affected employees; however, since certain affected employees can defer receipt of termination benefits for up to five years, cash payments continue after such employees have been terminated. The remaining liability for terminations in connection with these restructurings is approximately $2 million as of December 31, 2004, which is included in other current liabilities.

6. GOODWILL AND OTHER INTANGIBLE ASSETS

In January 2002, TWC adopted FAS 142, which requires companies to cease amortizing goodwill and certain other intangible assets with an indefinite useful life. Instead, FAS 142 requires that goodwill and other intangible assets deemed to have an indefinite useful life be reviewed for impairment upon adoption of FAS 142 (January 1, 2002) and annually thereafter.

Upon the adoption of FAS 142 in the first quarter of 2002, the Company completed its initial impairment review and recorded a non-cash charge of $27.971 billion (including $4.996 billion related to discontinued operations) to reduce the carrying value of goodwill arising from the America Online-Historic TW merger. Such charge is non-operational in nature and is reflected as a cumulative effect of an accounting change associated with continuing operations in the accompanying consolidated statement of operations. The amount of the impairment primarily reflects the decline in the Time Warner's stock price since the America Online-Historic TW merger was announced and valued for accounting purposes in January of 2000.

Prior to performing the review for impairment, FAS 142 required that goodwill deemed to be related to an entity as a whole be assigned to all of Time Warner's reporting units, including the reporting units of America Online. This differs from the previous accounting rules under which goodwill was assigned only to the businesses of the company acquired. As a result, $8.808 billion of goodwill generated in the America Online-Historic TW merger and initially allocated to TWC was reallocated to other segments of Time Warner.

During the fourth quarter of 2002, the Company performed its annual impairment review for goodwill and other intangible assets and recorded an additional non-cash charge of approximately $10.550 billion, which is reported as a component of operating loss in the accompanying consolidated statement of operations. The impairment charge was estimated using a combination of discounted cash flow methodology and a review of market comparisons and recent transactions. In accordance with Topic D-108, the Company utilized a traditional discounted cash flow methodology to value intangibles for its December 2004 impairment test. The Company's 2004 and 2003 impairment reviews resulted in no impairment.

Prior to the adoption of FAS 142, TWC reviewed the carrying amount of goodwill and other intangible assets for impairment when there was (a) a significant decrease in the market value of an asset; (b) a significant change in the extent or manner in which an asset was used or a significant physical change in an asset; (c) a significant change in the legal factors or in the business climate that could affect the value of an asset or an adverse action or assessment by a regulator; (d) an accumulation of costs significantly in excess of the amount originally expected to acquire or construct an asset or a current period operating or cash flow loss combined with a history of operating or cash flow losses; (e) or a projection or forecast that demonstrates continuing losses associated with an asset used for the purpose of producing revenue. If it was determined that the carrying amount of intangible assets or goodwill would not be recovered from undiscounted future cash flows, the carrying amount of such intangible assets or goodwill would be considered impaired. An impairment charge for goodwill and other intangible assets was measured as the amount by which the carrying amount of such assets exceeded the fair value. Fair value was primarily determined by the use of a discounted cash flow analysis and a comparative company analysis.

As of December 31, 2004 and 2003, the Company's other intangible assets and related accumulated amortization included the following (in millions):

	December 31, 2004			December 31, 2003		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Other intangible assets subject to amortization						
Subscriber lists	$ 260	$ (113)	$ 147	$ 260	$ (49)	$ 211
Renewal of cable franchises	131	(98)	33	107	(91)	16
Other	78	(33)	45	78	(28)	50
Total	$ 469	$ (244)	$ 225	$ 445	$ (168)	$ 277
Other intangible assets not subject to amortization						
Cable franchises	$ 31,242	$ (1,489)	$ 29,753	$ 31,241	$ (1,489)	$ 29,752
Other	3	-	3	3	-	3
Total	$ 31,245	$ (1,489)	$ 29,756	$ 31,244	$ (1,489)	$ 29,755

The Company recorded amortization expense of $76 million in 2004, $58 million in 2003, and $7 million in 2002. Based on the current amount of intangible assets subject to amortization, the estimated amortization expense for the succeeding five years is: $78 million in 2005, $77 million in 2006, $27 million in 2007, $9 million in 2008, and $6 million in 2009. As acquisitions and dispositions occur in the future and as purchase price allocations are finalized, these amounts may vary.

The Company recorded the following intangible assets in conjunction with the TWE Restructuring in 2003 (in millions):

		Amortization Period
Subscriber lists	$ 260	Four years
Goodwill	1,921	Indefinite
Cable franchises	2,997	Indefinite
	$ 5,178	

7. INVESTMENTS AND JOINT VENTURES

The Company had investments of $1.964 billion and $1.800 billion as of December 31, 2004 and December 31, 2003, respectively. These investments are comprised almost entirely of equity method investees.

At December 31, 2004, investments accounted for using the equity method primarily included: Texas and Kansas City Cable Partners, L.P. (50% owned, approximately 1.5 million subscribers) and Urban Cable Works of Philadelphia (40% owned, approximately 50,000 subscribers).

At December 31, 2003 and 2002, investments accounted for using the equity method primarily included: Texas Cable Partners, L.P. (50% owned, approximately 1.2 million subscribers at December 31, 2003 and 2002), Kansas City Cable Partners, L.P. (50% owned, approximately 304,000 subscribers at December 31, 2003 and 306,000 subscribers at December

31, 2002), and Urban Cable Works of Philadelphia (40% owned, approximately 55,000 subscribers at December 31, 2003 and 59,000 subscribers at December 31, 2002).

A summary of financial information as reported by these equity investees is presented below:

	Year ended December 31,		
	2004	2003	2002
		(in millions)	
Operating results:			
Revenues	$ 1,345	$ 1,210	$ 1,077
Operating income	178	162	152
Net income	94	89	60
Balance sheet:			
Current assets	$ 160	$ 119	$ 96
Noncurrent assets	2,712	2,688	2,681
Total assets	2,872	2,807	2,777
Current liabilities	451	456	394
Long-term debt (third-party)	1,035	1,195	1,513
Total liabilities	2,414	2,443	2,497
Total equity	458	364	280

The carrying amount of the Company's investments in its unconsolidated cable television system joint ventures was adjusted upward in the America Online-Historic TW merger by over $1 billion. This adjustment was not pushed down to the balance sheets of the equity investees. During 2002 these investments experienced a decline in value and, during the fourth quarter of 2002, the Company's management determined that the decline in value was other-than-temporary and recorded a non-cash impairment charge of $420 million. This charge was recorded on the Company's consolidated statement of operations within other expenses and was not recognized on the statement of operations of the equity investees. The charge was estimated using a combination of discounted cash flow methodology and a review of market comparisons and recent transactions.

At December 31, 2004, the Company's recorded investments in equity method investees were greater than the underlying net assets of the equity method investees by approximately $1.436 billion. This difference was primarily attributable to the fair value adjustments recorded by TWC in conjunction with the America Online – Historic TW merger.

8. DEBT

TWC's outstanding debt as of December 31, 2004 and 2003 includes the following components:

	Face Amount (in millions)	Interest Rate at December 31, 2004	Year of Maturity	Outstanding Borrowings As of December 31, 2004 (in millions)	Outstanding Borrowings As of December 31, 2003 (in millions)
Debt due within one year:					
Capital leases and other				$ 1	$ 4
Long-term debt:					
Bank credit agreements and commercial paper program		2.480% (a)	2009	1,523	2,575
TWE Notes and Debentures:					
Senior debentures	$ 600	7.250 % (b)	2008	605	606
Senior notes	250	10.150 % (b)	2012	280	284
Senior notes	350	8.875 % (b)	2012	375	378
Senior debentures	1,000	8.375 % (b)	2023	1,048	1,051
Senior debentures	1,000	8.375 % (b)	2033	1,059	1,061
Total TWE Notes	$ 3,200			3,367	3,380
Capital leases and other				8	9
Total long-term debt				4,898	5,964
Mandatorily redeemable preferred equity		8.059%	2023	2,400	2,400
Total debt and preferred equity				$ 7,299	$ 8,368

(a) Amount represents a weighted average interest rate.
(b) Amount represents the stated interest rate at original issuance. The effective weighted average interest rate for the TWE notes in the aggregate is 7.557% at December 31, 2004.

Bank Credit Agreement and Commercial Paper Program

Prior to the restructuring of TWE on March 31, 2003, the Company, through TWE and TWE-A/N, received financing through its participation in the Time Warner corporate revolving credit facilities. In conjunction with the TWE Restructuring, Time Warner's $4.0 billion 364-day revolving credit facility was bifurcated into two credit facilities evidencing the separate obligations of Time Warner, with commitments of $2.5 billion, and TWE, with commitments of $1.5 billion. Also in connection with the TWE Restructuring, the Company incurred a $2.1 billion senior unsecured term loan facility, the proceeds of which had been used to repay a like amount of pre-existing debt to a Comcast subsidiary.

On December 9, 2003, the Company and TWE refinanced each of their respective credit facilities, including TWE's $1.5 billion 364-day revolving credit facility and the Company's $2.1 billion term loan. At December 31, 2003, the credit facilities of the Company and TWE consisted of a $2.0 billion five-year revolving credit facility, a $500 million three-year term loan and a $1.0 billion 364-day revolving credit facility.

On November 23, 2004, the Company and TWE (the "Borrowers") entered into an amended and restated $4.0 billion senior unsecured five-year revolving credit agreement (the "Credit Agreement") with a syndicate of financial institutions. The Credit Agreement amends and restates the Borrowers' previous $2.0 billion five-year revolving credit agreement and replaces the $1.0 billion 364-day revolving credit agreement and the $500 million three-year term loan agreement.

Borrowings under the Credit Agreement bear interest at a rate based on the credit rating of TWC, which rate is currently LIBOR plus 0.39%. In addition, the Borrowers are required to pay a facility fee of 0.11% per annum on the aggregate commitments under the Credit Agreement. An additional usage fee of 0.10% of the outstanding amounts under the Credit Agreement is incurred if and when such amounts exceed 50% of the aggregate commitments thereunder. The Credit Agreement provides same-day funding capability, and a portion of the commitments, not to exceed $300 million at any time, may be used for the issuance of letters of credit. The Credit Agreement contains representations, warranties, covenants and events of default which are substantially identical to those contained in the Borrowers' previous $2.0 billion five-year credit agreement, including, without limitation, a maximum leverage ratio covenant of 5.0 times consolidated EBITDA of TWC and a minimum interest coverage covenant of 2.0 times consolidated cash interest expense of TWC. Each of these terms, ratios and related financial metrics are defined in the Credit Agreement. The Credit Agreement does not contain any credit ratings-based defaults or covenants, nor any ongoing covenant or representation specifically relating to a material adverse change in TWC's or TWE's financial condition or results of operations. Borrowings may be used for general corporate purposes and unused credit is available to support commercial paper borrowings. As of December 31, 2004 there were no borrowings or letters of credit outstanding under the Credit Agreement; however, the Company's $1.523 billion of outstanding commercial paper is supported by the Credit Agreement.

The Borrowers have cross-guaranteed their respective obligations under the Credit Agreement. In addition, Warner Communications Inc. and American Television and Communications Corporation (both indirect wholly-owned subsidiaries of Time Warner but not subsidiaries of TWC) (the "Guarantors") have each guaranteed a pro-rata portion of TWE's obligations under the Credit Agreement (including TWE's obligations under its guarantee of TWC's obligations), although there are generally no restrictions on the ability of the Guarantors to transfer material assets (other than their interests in TWC or TWE) to parties that are not guarantors. The facility ranks pari passu with the Company's other unsecured senior indebtedness. The Credit Agreement will expire on November 23, 2009, at which time any outstanding amounts under the Credit Agreement will be due and payable.

TWE maintains a $1.5 billion unsecured commercial paper program. Additionally, in the second quarter of 2004, TWC established a $2.0 billion unsecured commercial paper program. The combined total of the unsecured notes outstanding at any time under these commercial paper programs (the "Notes") may not exceed $3.0 billion. The Company is a guarantor of Notes issued by TWE, and TWE is a guarantor of Notes issued by TWC. In addition, the Guarantors have each guaranteed a pro rata portion of the obligations under the Notes, although there are generally no restrictions on the ability of the Guarantors to transfer material assets (other than their interests in TWC or TWE) to parties that are not guarantors. The Notes rank pari passu with the Company's and TWE's other unsecured senior indebtedness.

In connection with the TWE Restructuring, all amounts due to Time Warner and all outstanding TWE-A/N debt were extinguished, and $600 million of additional indebtedness was incurred under the bank credit facilities. In the third quarter of 2003, the Company issued commercial paper and repaid it borrowings under the TWE Revolving Bank Credit Facility.

TWE Notes and Debentures

During 1992 and 1993, TWE issued debt publicly in a number of offerings. The maturities of these outstanding issuances ranged from 15 to 40 years and the fixed interest rates range from 7.25% to 10.15%. The fixed rate borrowings include an unamortized debt premium of $167 million and $180 million as of December 31, 2004 and 2003, respectively. The debt premium is amortized over the term of each debt issue as a reduction of interest expense. Each of the Guarantors has guaranteed a pro rata portion of TWE's debt and accrued interest, based on the relative fair value of the net assets that each Guarantor (or its predecessor) contributed to TWE prior to the TWE Restructuring. Such indebtedness is recourse to each Guarantor only to the extent of its guarantee. The indenture pursuant to which TWE's public notes and debentures have been issued requires the majority consent of the holders of the notes and debentures to terminate the Guarantor guarantees. There are generally no restrictions on the ability of the Guarantors to transfer material assets (other than their interests in TWE or TWC) to parties that are not Guarantors. In addition to the guarantees provided by the Guarantors, TWE's debt and accrued interest is guaranteed by TWC. On September 10, 2003, TWE submitted an application with the Securities and Exchange Commission ("SEC") to withdraw its 7 ¼% Senior Debentures (due 2008) from listing and registration on the New York Stock Exchange. The application to withdraw was granted by the SEC effective on October 17, 2003. As a result, TWE no longer has an obligation to file reports with the SEC under the Securities Exchange Act of 1934.

On November 1, 2004, TWC, TWE, certain other affiliates of Time Warner, and the Bank of New York, as Trustee, entered into the Ninth Supplemental Indenture to the indenture governing $3.2 billion of notes (face value) issued by TWE (the "TWE Notes"). As a result of the supplemental indenture, Time Warner NY Cable Inc., a wholly owned subsidiary of TWC and a general partner of TWE, formally assumed certain statutorily imposed liabilities with respect to the TWE Notes.

Amounts Allocated by Time Warner

Prior to the TWE Restructuring, a portion of Time Warner's debt was allocated to TWC based upon the level of debt assumed as part of the TWE Restructuring and TWC's historical cash flow. The Company recorded interest expense of approximately $32 million in 2002 related to this allocated debt. The interest expense was calculated based on the interest rate that Time Warner charged TWC for related party debt. All amounts allocated by Time Warner were settled as part of the restructuring of TWE.

Mandatorily Redeemable Preferred Equity

As part of the TWE Restructuring, TWE issued $2.4 billion in mandatorily redeemable preferred equity to a subsidiary of Time Warner in conjunction with the TWE Restructuring. The issuance was a non-cash transaction. The preferred equity pays cash distributions at an annual rate of 8.059% of its face value, payable in cash each quarter. The preferred equity matures and is required to be redeemed by TWE in cash on April 1, 2023.

Deferred financing costs

As of December 31, 2004, the Company has capitalized $6 million of deferred financing costs associated with the establishment of the TWC credit facilities and the issuance of mandatorily redeemable preferred equity. These capitalized costs are amortized over the term of the related debt facility and included as a component of interest expense.

Maturities

Annual repayments of long-term debt, including the repayment of mandatorily redeemable preferred equity, are expected to occur as follows:

Year	Repayment (in millions)
2008	$ 600
2009	1,523
2012	608
2023	3,400
2033	1,000
	$ 7,131

Fair Value of Debt

Based on the level of interest rates prevailing at December 31, 2004 and December 31, 2003, the fair value of TWC's fixed-rate debt (including the mandatorily redeemable preferred equity) exceeded its carrying value by approximately $1.278 billion and $1.078 billion at December 31, 2004 and December 31, 2003, respectively. Unrealized gains or losses on debt do not result in the realization or expenditure of cash and are not recognized for financial reporting purposes unless the debt is retired prior to its maturity.

Rating Triggers and Financial Covenants

The Company's borrowing facilities discussed above contain customary covenants. A breach of such covenants 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 facility and/or require immediate payment of outstanding debt. Additionally, in the event that the Company's credit ratings decrease, the cost of maintaining the facilities and of borrowing under the Credit Agreement increases and, conversely, if the ratings improve, such costs decrease. There are no rating-based defaults or covenants in any of the Company's borrowing facilities. As of December 31, 2004 and through the issuance date of these financial statements, the Company was in compliance with all covenants with a leverage and an interest coverage of approximately 1.4 times and 6.7 times, respectively. Management does not anticipate that the Company will have any difficulty complying with the covenants currently in place in the foreseeable future.

For so long as TWC's indebtedness is, in Time Warner's reasonable judgment, attributable to Time Warner in evaluating Time Warner's credit profile, TWC may not, without the consent of Time Warner, create, incur or guarantee any indebtedness other than to Time Warner, including preferred equity, or rental obligations, if the Company's ratio of indebtedness plus six times its annual rental expense to EBITDA, as defined in the Parent Agreement between TWC and Time Warner, plus rental expense, or "EBITDAR," then exceeds or would exceed 3:1.

9. INCOME TAXES

TWC is not a separate taxable entity for U.S. federal and various state income tax purposes and its results are included in the consolidated U.S. federal and certain state income tax returns of Time Warner. The following income tax information has been prepared assuming TWC was a stand-alone taxpayer for all periods presented.

The components of the (provision) benefit for income taxes are as follows:

	Year ended December 31, 2004	2003 (in millions)	2002
Federal			
Current	$ -	$ (225)	$ (265)
Deferred	(411)	(95)	39
State			
Current	(55)	(101)	(66)
Deferred	(68)	9	9
Total income tax provision	$ (534)	$ (412)	$ (283)

The difference between income taxes expected at the U.S. federal statutory income tax rate of 35% and income taxes provided is detailed below:

	Year ended December 31, 2004	2003 (in millions)	2002
Taxes on income at U.S. federal statutory rate	$ (450)	$ (348)	$ 3,490
State and local taxes, net of federal tax benefits	(81)	(60)	(37)
Nondeductible impairment/amortization of goodwill	-	-	(3,693)
Other	(3)	(4)	(43)
Reported income tax provision	$ (534)	$ (412)	$ (283)

The Company has recorded a tax benefit in shareholders' equity and attributed net assets of $2 million in 2004, $2 million in 2003 and $1 million in 2002 in connection with the exercise of certain stock options.

Significant components of TWC's net deferred tax liabilities are as follows:

	As of December 31,	
	2004	2003
	(in millions)	
Cable franchise costs and subscriber lists	$ (11,039)	$ (11,038)
Fixed assets	(1,617)	(1,252)
Investments	(649)	(698)
Other	(134)	(9)
Deferred tax liabilities	(13,439)	(12,997)
Receivable allowances	26	25
Other	74	110
Deferred tax assets	100	135
Net deferred tax liabilities	$ (13,339)	$ (12,862)

TWC owns 94.3% of the common equity of TWE. Net income for financial reporting purposes of TWE is allocated to the partners in accordance with the partners' common ownership interests. Income for tax purposes is allocated in accordance with the partnership agreement and related tax law. As a result, the allocation of taxable income to the partners differs from the allocation of net income for financial reporting purposes. In addition, pursuant to the partnership agreement, TWE makes tax distributions based upon the taxable income of the partnership. The payments are made to each partner in accordance with their common ownership interest.

10. STOCK OPTION PLANS

Time Warner has various stock option plans under which it has granted options to purchase Time Warner Common Stock to employees of TWC. Such options have generally been granted to employees of TWC with exercise prices equal to the fair market value at the date of grant. In accordance with APB 25 and related interpretations, compensation cost is not recognized for its stock option plans. The options generally become exercisable over a four-year vesting period and expire ten years from the date of grant.

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 used for grants in 2004, 2003 and 2002: dividend yields of 0% in all periods; expected volatility of 34.9%, 53.9% and 52.9%, respectively; risk-free interest rates of 3.07%, 2.56% and 4.12%, respectively; and expected terms to exercise of 1.1 years after vesting for 2004, 0.61 years after vesting for 2003 and 0.47 years after vesting for 2002. The expected volatility in 2004 was estimated based on an average of historic volatility and implied volatility, while the expected volatility in 2003 and 2002 was based on historic volatilities. The weighted average fair value of an option granted during the year was $5.11 in 2004, $4.06 in 2003 and $9.77 in 2002.

A summary of Time Warner stock option activity with respect to employees of the continuing operations of TWC is as follows:

	Shares (in thousands)	Weighted Average Exercise Price
Balance at January 1, 2002	25,483	$ 39.56
2002 Activity		
Granted	10,050	25.90
Exercised	(220)	11.90
Cancelled	(1,328)	38.64
Balance at December 31, 2002	33,985	35.66
2003 Activity		
Granted	9,993	10.55
Exercised	(940)	10.94
Cancelled	(1,533)	31.13
Balance at December 31, 2003	41,505	30.25
2004 Activity		
Granted	8,298	17.25
Exercised	(1,076)	12.15
Cancelled	(934)	30.25
Balance at December 31, 2004	47,793	28.40

The following table summarizes certain information about Time Warner stock options outstanding with respect to employees of TWC at December 31, 2004:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding (in thousands)	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Number Exercisable (in thousands)	Weighted Average Exercise Price
Under $10.00	37	2.33	$ 4.29	37	$ 4.29
$10.01 to $15.00	12,103	6.54	11.35	5,233	12.51
$15.01 to $20.00	8,450	9.07	17.22	179	17.20
$20.01 to $30.00	9,971	6.41	26.14	5,997	25.82
$30.01 to $45.00	2,314	6.58	36.57	1,758	36.75
$45.01 to $50.00	12,057	5.94	47.18	9,446	47.18
$50.01 to $60.00	2,861	5.54	55.97	2,649	56.28
Total	47,793	6.75	28.40	25,299	34.90

At December 31, 2004, 2003 and 2002, approximately 25.3 million, 18.4 million and 13.1 million Time Warner stock options, respectively, were exercisable with respect to employees of the continuing operations of TWC.

Upon exercise of Time Warner options, TWC is obligated to reimburse Time Warner for the excess of the market price of the stock over the option exercise price. TWC records a stock option distribution liability and a corresponding adjustment to shareholders' equity or attributed net assets, with respect to unexercised options. This liability will increase or decrease depending on the number of vested options outstanding and the market price of Time Warner Common Stock. This liability was $57 million and $32 million as of December 31, 2004 and December 31, 2003, respectively, and is included as a component of accrued compensation in other current liabilities. TWC reimbursed Time Warner approximately $8 million, $3 million and $2 million during the years ended December 31, 2004, 2003 and 2002, respectively.

11. EMPLOYEE BENEFIT PLANS

The Company participates in various funded and non-funded non-contributory defined benefit pension plans administered by Time Warner (the "Pension Plans") and the TWC Savings Plan (the "401K Plan"), a defined pre-tax contribution plan.

Benefits under the Pension Plans for all employees are determined based on formulas that reflect employees' years of service and compensation levels during their employment period. The Company's pension assets are held in a master trust with plan assets of other Time Warner defined benefit plans. Time Warner's Common Stock represents approximately 3% and 4% of defined benefit plan assets held in the master trust at December 31, 2004 and December 31, 2003, respectively. TWC uses a December 31 measurement date for its plans. A summary of activity for the Pension Plans is as follows:

	Year ended December 31,		
	2004	2003	2002
Components of Pension Expense		(in millions)	
Service cost	$ 47	$ 35	$ 26
Interest cost	44	36	29
Expected return on plan assets	(47)	(29)	(32)
Net amortization	20	21	4
Total Pension Expense	$ 64	$ 63	$ 27

	As of December 31,	
	2004	2003
Change in Projected Benefit Obligation	(in millions)	
Projected benefit obligation at beginning of year	$ 619	$ 489
Service cost	47	35
Interest cost	44	36
Actuarial loss	84	75
Benefits paid	(13)	(16)
Projected benefit obligation at end of year	$ 781	$ 619
Accumulated benefit obligation	$ 645	$ 514
Change in Plan Assets		
Fair value of plan assets at beginning of year	$ 599	$ 314
Actual return on plan assets	66	93
Employer contribution	150	208
Benefits paid	(13)	(16)
Fair value of plan assets at end of year	$ 802	$ 599
Funded Status		
Fair value of plan assets at end of year	$ 802	$ 599
Projected benefit obligation at end of year	781	619
Funded status	21	(20)
Unrecognized actuarial loss	245	200
Net recognized prepaid pension expense	$ 266	$ 180
Amounts recognized in the balance sheet		
Prepaid benefit cost	$ 287	$ 200
Accrued benefit cost	(27)	(25)
Accumulated other comprehensive income	6	5
Net amount recognized	$ 266	$ 180

	Year ended December 31,		
	2004	2003	2002
Weighted average pension assumptions used to determine benefit obligation			
Discount rate	6.00%	6.25%	6.75%
Rate of compensation increase	4.50%	4.50%	4.50%
Weighted average pension assumptions used to determine net periodic benefit cost			
Discount rate	6.25%	6.75%	7.50%
Expected return on plan assets	8.00%	8.00%	9.00%
Rate of compensation increase	4.50%	4.50%	4.50%

The discount rate was determined by comparison against the Moody's Aa Corporate Index rate, adjusted for coupon frequency and duration of the obligation. In developing the expected long-term rate of return on assets, the Company considered the pension portfolio's composition, past average rate of earnings and discussions with portfolio managers. The expected long-term rate of return for domestic plans is based on an asset allocation assumption of 75% equities and 25% fixed-income securities. The expected rate of return for the plans is based upon its expected asset allocation.

The Company maintains certain unfunded defined benefit pension plans that are included above. The projected benefit obligations and accumulated benefit obligations for the unfunded defined benefit pension plans were each $27 million as of December 31, 2004 and $24 million as of December 31, 2003. At December 31, 2004 there were no minimum required contributions for funded plans and no discretionary or non-cash contributions are currently planned. For unfunded plans, contributions will continue to be made to the extent benefits are paid.

The Company's investment strategy for its pension plans is to maximize the long-term rate of return on plan assets within an acceptable level of risk while maintaining adequate funding levels. The Company's practice is to conduct a strategic review of its asset allocation strategy every five years. The Company's current broad strategic targets are to have a pension asset portfolio comprising 75% equity securities and 25% fixed-income securities. A portion of the fixed-income allocation is reserved in short-term cash to provide for expected benefits to be paid in the short term. The Company's equity portfolios are managed to achieve optimal diversity. The Company's fixed-income portfolio is investment-grade in the aggregate. The Company does not manage any assets internally, does not have any passive investments in index funds and does not utilize hedging, futures or derivative instruments.

After considering the funded status of the Company's defined benefit pension plans, movements in the discount rate, investment performance and related tax consequences, the Company may choose to make contributions to its pension plans in any given year. At December 31, 2004, there were no minimum required contributions and no discretionary or noncash contributions are currently planned. For the unfunded plans, contributions will continue to be made to the extent benefits are paid. Expected benefit payments for domestic unfunded plans for 2005 is approximately $2 million.

Information about the expected benefit payments for the Company's defined benefit plans is as follows (in millions):

Expected benefit payments:		
2005	$	13
2006		13
2007		18
2008		19
2009		22
2010 to 2014		163

The above detail of expected benefit payments includes approximately $18 million of benefits related to unfunded plans.

Certain employees of TWC participate in multi-employer pension plans as to which the expense amounted to approximately $19 million in 2004, $17 million in 2003, and $17 million in 2002.

TWC employees also generally participate in certain defined contribution plans, including the 401K Plan, for which the expense amounted to $33 million in 2004, $30 million in 2003, and $24 million in 2002. Contributions to the defined contribution plans are based upon a percentage of the employees' elected contributions.

12. RELATED PARTIES

In the normal course of conducting its business, the Company has various transactions with affiliates of Time Warner, Comcast and the equity method investees of TWC. A summary of these transactions is as follows:

	Year ended December 31, 2004	2003	2002
		(in millions)	
Revenues:			
Advertising	$ 22	$ 23	$ 134
AOL broadband subscriptions	38	58	27
Road Runner revenues from TWC's unconsolidated cable television system joint ventures	53	44	29
Other	2	-	-
Total	$ 115	$ 125	$ 190
Cost of revenues:			
Programming services provided by affiliates of Time Warner Inc.	$ (564)	$ (518)	$ (479)
Programming services provided by affiliates of Comcast[(a)]	(43)	(31)	(2)
Connectivity services provided by affiliates of Time Warner Inc.	(45)	(67)	(120)
Other costs charged by affiliates of Time Warner Inc.	(7)	(5)	-
Other costs charged by equity investees	(9)	(10)	(7)
Total	$ (668)	$ (631)	$ (608)
Selling, general and administrative expenses:			
Management fee income from unconsolidated cable television system joint ventures	$ 39	$ 30	$ 32
Management fees paid to Time Warner Inc.	(7)	(18)	(48)
Transactions with affiliates of Time Warner Inc.	(9)	(7)	(5)
Total	$ 23	$ 5	$ (21)
Interest (expense) income, net:			
Interest income on amounts receivable from unconsolidated cable television system joint ventures	$ 25	$ 19	$ 15
Interest expense paid to Time Warner Inc.	(193)	(154)	(32)
Total	$ (168)	$ (135)	$ (17)

[(a)] Represents programming payments made to affiliates of Comcast for the period subsequent to the purchase of AT&T Broadband by Comcast.

Funding Agreement – Texas and Kansas City Cable Partners, L.P.

TWE-A/N and Comcast are parties to a funding agreement (the "Funding Agreement") that requires the parties to provide additional funding to Texas and Kansas City Cable Partners L.P. on a month-to-month basis in an amount to enable certain Texas systems (i.e., Houston and south Texas systems) to maintain compliance with financial covenants under its bank credit facilities. The Texas systems' outstanding principal and accrued interest under its bank credit facilities as of December 31, 2004 was $805 million. Currently, TWE-A/N and Comcast each fund half of the total obligation under the Funding Agreement. The Company's funding obligations under the Funding Agreement totaled $33 million, $83 million and $70 million for the years ended December 31, 2004, 2003 and 2002, respectively.

Upon completion of the Texas Cable Partners and Kansas City Cable Partners restructuring in May 2004, TWE-A/N's funding obligation for the Texas systems was automatically extended until all amounts borrowed under the senior credit agreement have been repaid and the senior credit agreement has been terminated. As part of the restructuring, all of the assets and liabilities of Texas and Kansas City Cable Partners L.P. have been grouped into two comparable pools. Upon delivery of a dissolution notice by either partner, which can occur no earlier than June 1, 2006, the partner receiving the dissolution notice will choose and take full ownership of a pool of assets and liabilities that will be distributed to it upon dissolution. The other partner will receive and take full ownership of the other pool of assets and liabilities upon dissolution. After the pools have been allocated, each partner will provide funding under the Funding Agreement pro rata based on the amount of the debt incurred under the senior credit facility that is allocated to the pool selected by that partner until the partnership is dissolved and the senior credit agreement terminates. In accordance with FIN 45, the Company has accrued $83 million as a liability related to the estimated prospective funding of the Texas systems through June 1, 2006.

Promissory notes issued under the Funding Agreement bear interest at LIBOR plus 4% (adjusted quarterly and added to the principal amount of the note) and are subordinate in payment to the credit agreement of Texas and Kansas City Cable Partners, L.P. and are payable on the day following the date on which Texas and Kansas City Cable Partners, L.P. has no outstanding borrowings under its senior credit agreement. The related interest earned for the years ended December 31, 2004, 2003 and 2002 totaled approximately $22 million, $17 million, and $13 million, respectively. As of December 31, 2004 and December 31, 2003, the Company holds $425 million and $356 million, respectively, of promissory notes from Texas and Kansas City Cable Partners, L.P. (including accrued interest of approximately $63 million and $41 million, respectively) which have been recorded in investments.

Urban Cable Works of Philadelphia

As of December 31, 2004 and December 31, 2003, the Company holds $67 million and $63 million, respectively, of promissory notes from Urban Cable Works of Philadelphia (including accrued interest of approximately $6 million and $3 million, respectively) which have been recorded in investments.

13. COMMITMENTS AND CONTINGENCIES

Prior to the restructuring of TWE, TWE had various contingent commitments, including guarantees, related to the TWE Non-cable Businesses. In connection with the restructuring of TWE, some of these commitments were not transferred with their applicable Non-cable Business and they remain contingent commitments of TWE. Time Warner and its subsidiary Warner Communications Inc. have agreed, on a joint and several basis, to indemnify TWE from and against any and all of these contingent liabilities, but TWE remains a party to these commitments.

Firm Commitments

The Company had commitments under various firm contractual arrangements to make future payments for goods and services. These firm commitments secure future rights to various assets and services to be used in the normal course of operations. For example, the Company is contractually committed to make some minimum lease payments for the use of property under operating lease agreements. In accordance with current accounting rules, the future rights and obligations pertaining to these contracts are not reflected as assets or liabilities on the accompanying consolidated balance sheet.

The following table summarizes the material firm commitments of the Company's continuing operations at December 31, 2004 and the timing and effect that these obligations are expected to have on the Company's liquidity and cash flow in future periods. This table excludes repayments on long-term debt (including capital leases) and commitments related to other entities, including certain unconsolidated equity method investees and the A/N Systems, which reimburse TWC for certain programming and fixed assets that TWC purchases on their behalf in connection with its management services agreement. TWC expects to fund these firm commitments with operating cash flow generated in the normal course of business.

	Firm Commitments				
	2005	2006 - 2007	2008 - 2009	2010 and thereafter	Total
			(in millions)		
Programming purchases [a]	$ 1,853	$ 3,478	$ 2,301	$ 1,873	$ 9,505
Facility leases [b]	51	87	72	196	406
Data processing services	30	58	58	86	232
High-speed data connectivity	22	10	-	-	32
Digital Phone connectivity	37	62	5	-	104
Converter and modem purchases	49	-	-	-	49
Other	5	4	3	1	13
Total	$ 2,047	$ 3,699	$ 2,439	$ 2,156	$ 10,341

(a) The Company has purchase commitments with various programming vendors to provide video services to subscribers. Programming fees represent a significant portion of its cost of revenues. Future fees under such contracts are based on numerous variables, including number and type of customers. The amounts of the commitments reflected above are based on the number of consolidated subscribers at December 31, 2004 applied to the per subscriber contractual rates contained in the contracts that were in effect as of December 31, 2004.

(b) The Company has facility lease commitments under various operating leases including minimum lease obligations for real estate and operating equipment.

At any time after March 31, 2005, Comcast has the right to require TWC or Time Warner to purchase all or a portion of the Comcast's 4.7% limited partnership interest in TWE at an appraised fair market value, subject to a right of first refusal in favor of Time Warner. Additionally, Comcast also has the right, at any time after March 31, 2005, to sell all or a portion of its interest in TWE to a third party in a bona fide transaction, subject to a right of first refusal, first, in favor of Time Warner and, second, in favor of TWC. If TWC and Time Warner do not collectively elect to purchase all of Comcast's offered partnership interest, Comcast may proceed with the sale of the offered partnership interest to that third party on terms no more favorable than those offered to TWC and Time Warner, if that third party agrees to be bound by the same terms and conditions applicable to Comcast as a limited partner in TWE. The purchase price payable by TWC or Time Warner as consideration for the Comcast's partnership interest may be cash, common stock, if the common stock of the purchaser is then publicly traded, or a combination of both. Under the arrangements entered into by Comcast as part of the process of obtaining FCC approval of Comcast's acquisition of AT&T Broadband, Comcast is obligated to take steps to dispose of its entire interest in TWC and TWE in an orderly process by November 2007, and in any event by May 2008. As of April 15, 2005, Comcast has not exercised its right to require TWC or Time Warner to purchase all or a portion of its 4.7% limited partnership interest in TWE.

As previously discussed, Comcast has been granted an option, which generally can be exercised until 60 days following delivery of a termination notice from either TWC or Comcast, to require TWC to redeem a portion of the TWC stock held by Comcast in exchange for a TWC subsidiary holding certain cable systems and approximately $750 million in cash.

As previously discussed, TWC has also agreed to purchase, subject to receipt of applicable regulatory approvals, all of Inner City's interests in the Urban Cable venture for approximately $53 million in cash. In addition, upon closing, TWC will eliminate in consolidation $67 million of debt and interest owed to it by Urban Cable and will assume $53 million of Urban Cable's third-party debt. TWC is continuing to work with the local franchise authority to gain approval of its purchase of Urban Cable and management is currently unable to predict the timing of such approval.

The Company's total rent expense amounted to $105 million, $94 million, and $86 million for the years ended December 31, 2004, 2003 and 2002, respectively.

Contingent Commitments

Prior to the TWE Restructuring, TWE had various contingent commitments, including guarantees, related to the TWE Non-cable Businesses. In connection with the restructuring of TWE, some of these commitments were not transferred with their applicable Non-cable Business and they remain contingent commitments of TWE. Specifically, in connection with the Non-cable Businesses' former investment in the Six Flags theme parks located in Georgia and Texas ("Six Flags Georgia" and "Six Flags Texas," respectively, and collectively, the "Parks"), Historic TW and TWE each agreed to guarantee (the "Six Flags Guarantee") certain obligations relating to the partnerships that hold the Parks (the "Partnerships"). The Six Flags Guarantee principally covers the following obligations (the "Guaranteed Obligations"): (a) the obligation to make a minimum amount of annual distributions to the limited partners of the Partnerships; (b) the obligation to make a minimum amount of capital expenditures each year; (c) the requirement that an annual offer to purchase be made in respect of 5% of the limited partnership units of the Partnerships (plus any such units not purchased in any prior year) based on an aggregate price for all limited partnership units at the higher of (i) $250 million in the case of Six Flags Georgia or $374.8 million in the case of Six Flags Texas and (ii) a multiple of EBITDA and (d) either (i) the purchase of all of the outstanding limited partnership units upon the earlier of the occurrence of certain specified events or the end of the term of each of the Partnerships in 2027 (Six Flags Georgia) and 2028 (Six Flags Texas) (the "End of Term Purchase") or (ii) the obligation to cause each of the Partnerships to have no indebtedness and to meet certain other financial tests as of the end of the term of the Partnership. The aggregate purchase price in respect of all of the limited partnership units for the End of Term Purchase is equal to $250 million in the case of Six Flags Georgia and $374.8 million in the case of Six Flags Texas (in each case, subject to a consumer price index based adjustment calculated annually from 1998 in respect of Six Flags Georgia and 1999 in respect of Six Flags Texas). Such aggregate amount will be reduced in respect of limited partnership units previously purchased.

In connection with the 1998 sale of Six Flags Entertainment Corporation to Premier Parks Inc. ("Premier"), Premier, Historic TW and TWE, among others, entered into a Subordinated Indemnity Agreement pursuant to which Premier agreed to guarantee the performance of the Guaranteed Obligations when due and to indemnify Historic TW and TWE, among others, in the event that the Guaranteed Obligations are not performed and the Six Flags Guarantee is called upon. Premier's obligations to Historic TW and TWE are secured by its interest in all limited partnership units that are purchased by Premier.

Additionally, Time Warner and its subsidiary, Warner Communications Inc., have agreed, on a joint and several basis, to indemnify TWE from and against any and all of these contingent liabilities, but TWE remains a party to these commitments. In the event that TWE is required to make a payment related to any contingent liabilities of the TWE Non-cable Businesses, TWE will recognize an expense from discontinued operations and will receive a capital contribution from Time Warner and/or its subsidiary Warner Communications Inc. for reimbursement of the incurred expenses. Additionally, costs related to any acquisition and subsequent distribution to Time Warner would also be treated as an expense of discontinued operations to be reimbursed by Time Warner.

To date, no payments have been made by Historic TW or TWE pursuant to the Six Flags Guarantee.

The Company presently has certain cable franchises containing provisions requiring the construction of cable plant and the provision of services to customers within the franchise areas. In connection with certain obligations under existing franchise agreements, TWC obtains surety bonds or letters of credit guaranteeing performance to municipalities and public utilities and payment of insurance premiums. The Company has also obtained letters of credit for several of its joint ventures. Should these joint ventures default on their obligations supported by the letters of credit, TWC would be obligated to pay these costs to the extent of the letters of credit. Such surety bonds and letters of credit as of December 31, 2004 amounted to $135 million. Payments under these arrangements are required only in the event of nonperformance. No amounts were outstanding under these arrangements at December 31, 2004. The Company does not expect that these contingent commitments will result in any amounts being paid in the foreseeable future.

	Contingent Commitments				
	2005	2006 - 2007	2008 - 2009	2010 and thereafter	Total
			(in millions)		
Letters of credit and surety bonds..............	$ -	$ -	$ -	$ 135	$ 135

TWE is required, at least quarterly, to make tax distributions to its partners in proportion to their residual interests in an aggregate amount generally equivalent to a percentage of TWE's taxable income. TWE is also required to make cash distributions to Time Warner when the Company's employees exercise previously issued Time Warner stock options.

Legal Proceedings

Securities Matters

As of May 25, 2005, three putative class action lawsuits have been filed alleging violations of ERISA in the U.S. District Court for the Southern District of New York on behalf of current and former participants in the Time Warner Savings Plan, the Time Warner Thrift Plan and/or the TWC Savings Plan (the "Plans"). Collectively, these lawsuits name as defendants Time Warner, certain current and former directors and officers of Time Warner and members of the Administrative Committees of the Plans. One of these cases also names TWE as a defendant. The lawsuits allege that Time Warner and other defendants breached certain fiduciary duties to plan participants by, *inter alia,* continuing to offer Time Warner stock as an investment under the Plans, and by failing to disclose, among other things, that Time Warner was experiencing declining advertising revenues and that Time Warner was inappropriately inflating advertising revenues through various transactions. The complaints seek unspecified damages and unspecified equitable relief. The ERISA actions have been consolidated with other Time Warner-related shareholder lawsuits and derivative actions under the caption *In re AOL Time Warner Inc. Securities and "ERISA" Litigation* in the Southern District of New York. On July 3, 2003, plaintiffs filed a consolidated amended complaint naming additional defendants, including TWE, certain current and former officers, directors and employees of Time Warner and Fidelity Management Trust Company. On September 12, 2003, Time Warner filed a motion to dismiss the consolidated ERISA complaint. On March 9, 2005, the Court granted in part, and denied in part, Time Warner's motion to dismiss. The Court dismissed two individual defendants and TWE for all purposes, dismissed other individuals with respect to claims plaintiffs had asserted involving the TWC Savings Plan, and dismissed all individuals who were named in a claim asserting that their stock sales had constituted a breach of fiduciary duty to the Plans. The Company filed an answer to the consolidated ERISA complaint on May 20, 2005. The Company intends to defend against these lawsuits vigorously. The Company is unable to predict the outcome of these cases or reasonably estimate a range of possible loss.

Update on SEC and DOJ Investigations

As previously disclosed by the Company, the Securities and Exchange Commission (the "SEC") and the U.S. Department of Justice (the "DOJ") had been conducting investigations into the accounting and disclosure practices of Time Warner. Those investigations focused on advertising transactions, principally involving Time Warner's America Online segment, the methods used by the America Online segment to report its subscriber numbers and the accounting related to Time Warner's interest in AOL Europe prior to January 2002.

Time Warner and its subsidiary, AOL, entered into a settlement with the DOJ in December 2004 that provided for a deferred prosecution arrangement for a two-year period. In addition, on March 21, 2005, Time Warner announced that the SEC has approved Time Warner's proposed settlement, which resolves the SEC's investigation of Time Warner.

Under the terms of the settlement with the SEC, Time Warner agreed, without admitting or denying the SEC's allegations, to be enjoined from future violations of certain provisions of the securities laws and to comply with the cease-and-desist order issued by the SEC to AOL in May 2000. The settlement also requires Time Warner to:

- Pay a $300 million penalty, which will be used for a Fair Fund, as authorized under the Sarbanes-Oxley Act;

- Adjust its historical accounting for advertising revenues in certain transactions with Bertelsmann that were improperly recognized or prematurely recognized primarily in the second half of 2000, during 2001 and during 2002; as well as adjust its historical accounting for transactions involving three other AOL customers where there were advertising revenues recognized in the second half of 2000 and during 2001;

- Adjust its historical accounting for its investment in and consolidation of AOL Europe; and

- Agree to the appointment of an independent examiner, who will either be or hire a certified public accountant. The independent examiner would review whether Time Warner's historical accounting for transactions with 17 counterparties identified by the SEC staff, principally involving online advertising revenues and including three cable programming affiliation agreements with related advertising elements, was in conformity with GAAP, and provide a report to Time Warner's audit and finance committee of its conclusions within 180 days of being engaged. The transactions that would be reviewed were entered into between June 1, 2000 and December 31, 2001, including subsequent amendments thereto, and involved online advertising and related transactions for which revenue was principally recognized before January 1, 2002. Of the 17 counterparties identified, only the three counterparties to the cable programming affiliation agreements involve transactions with TWC.

Time Warner paid the $300 million penalty in March 2005. The historical accounting adjustments were reflected in the restatement of Time Warner's financial results for each of the years ended December 31, 2000 through December 31, 2003, which were included in Time Warner's 2004 Form 10-K.

As previously discussed, as part of the settlement with the SEC, Time Warner agreed to appoint an independent examiner. Depending on the independent examiner's conclusions, a further restatement might be necessary. It is also possible that, so long as there are unresolved issues associated with Time Warner's financial statements, the effectiveness of any registration statement of Time Warner or its affiliates may be delayed.

The three cable transactions that the examiner will review are ones in which the Company entered into cable programming affiliation agreements with cable programming vendors and, at the same time, the Company and other Time Warner subsidiaries secured advertising commitments from such cable programming vendors. It is possible that, as a result of the review, the independent examiner could conclude that the historical accounting for these three transactions was not in conformity with GAAP, either in part or in whole. As noted above, in the event the independent examiner concludes that the historical accounting for these three transactions was not in conformity with GAAP, a restatement may be necessary for these three transactions. Such a restatement could reduce the Company's operating income in 2001 and 2002. In addition, such a restatement could result in an increase in the Company's operating income annually over the remaining term of the relevant cable programming affiliation agreements. The Company also would evaluate the implications, if any, for its historical accounting of similar transactions entered into around the same time as the three transactions described above. If any further restatement were necessary, the impact, like that of the three transactions outlined above, would likely be to increase operating income from 2003 forward and decrease such income in 2001 and 2002. In the event that any restatements are necessary, there would be no impact on TWC's cash flows from operations in respect of 2001 and 2002, and, with respect to subsequent periods, the impact on cash flows from operations would be limited to that resulting from any cash taxes payable on any incremental taxable income recognized during those periods.

Other Matters

On October 7, 2003, *Kim Sevier and Eric M. Payne vs. Time Warner Inc. and Time Warner Cable Inc.*, a putative nationwide consumer class action, was filed in the U.S. District Court for the Southern District of New York, and on October 23, 2003, *Heidi D. Knight v. Time Warner Inc. and Time Warner Cable Inc.*, also a putative nationwide consumer class action, was filed in the same court. In each case, the plaintiffs allege that defendants unlawfully tie the provision of high-speed cable Internet service to leases of cable modem equipment, because they do not provide a discount to customers who provide their own cable modems, in violation of Section 1 of the Sherman Act and the New York Donnelly Act, and, further, that defendants' conduct resulted in unjust enrichment. On November 19, 2003, the court ordered plaintiffs' complaints to be consolidated. Plaintiffs filed their amended consolidated class action complaint on December 17, 2003, seeking compensatory damages, disgorgement, attorneys' fees and injunctive and declaratory relief. On February 6, 2004, Time Warner moved to compel arbitration and to stay the matter pending arbitration or, alternatively, to dismiss the case; the court denied this motion on April 19, 2004, and Time Warner filed a notice to appeal the decision on arbitration to the U.S. Court of Appeals for the Second Circuit. On March 7, 2005, the Second Circuit remanded the case to the district court so that the parties may seek approval of a proposed classwide settlement. The proposed settlement is immaterial to TWC.

On June 16, 1998, plaintiffs in *Andrew Parker and Eric DeBrauwere, et al. v. Time Warner Entertainment Company, L.P. and Time Warner Cable* filed a purported nationwide class action in U.S. District Court for the Eastern District of New York claiming that TWE sold its subscribers' personally identifiable information and failed to inform subscribers of their privacy rights in violation of the Cable Communications Policy Act of 1984 and common law. The plaintiffs are seeking damages and declaratory and injunctive relief. On August 6, 1998, TWE filed a motion to dismiss, which was denied on September 7, 1999. On December 8, 1999, TWE filed a motion to deny class certification, which was granted on January 9, 2001 with respect to monetary damages, but denied with respect to injunctive relief. On June 2, 2003, the U.S. Court of Appeals for the Second Circuit vacated the District Court's decision denying class certification as a matter of law and remanded the case for further proceedings on class certification and other matters. On May 4, 2004, plaintiffs filed a motion for class certification, which the Company has opposed. Recently, this lawsuit has been settled in principle on terms that are immaterial to TWC.

On April 25, 2005, Acacia Media Technologies ("AMT") filed suit against TWC in U.S. District Court for the Southern District of New York alleging that TWC infringes several patents held by AMT. AMT has publicly taken the position that delivery of broadcast video (except live programming such as sporting events), pay per view, video on demand and ad insertion services over cable systems infringe their patents. AMT has brought similar actions regarding the same patents against numerous other entities, and all of the previously pending litigations have been made the subject of a multidistrict litigation (MDL) order consolidating the actions for pretrial activity in the Northern District of California. The TWC action may also be consolidated into the MDL proceedings. The plaintiff is presently seeking unspecified monetary damages as well as injunctive relief. TWC will aggressively defend this matter but is currently unable to predict the outcome of the case or reasonably estimate a range of possible loss.

As part of the TWE Restructuring, Time Warner agreed to indemnify the cable businesses of TWE from and against any and all liabilities relating to, arising out of or resulting from specified litigation matters brought against the TWE Non-cable Businesses. Although Time Warner has agreed to indemnify the cable businesses of TWE against such liabilities, TWE remains a named party in certain litigation matters.

In the normal course of business, the Company's tax returns are subject to examination by various domestic taxing authorities. Such examinations may result in future tax and interest assessments on the Company. In instances where the Company believes that it is probable that it will be assessed, it has accrued a liability. The Company does not believe that these liabilities are material, individually or in the aggregate, to its financial condition or liquidity. Similarly, the Company does not expect the final resolution of tax examinations to have a material impact on the Company's financial results.

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 the Company relating to intellectual property rights and intellectual property licenses, could have a material adverse effect on the Company's business, financial condition and operating results.

13. ADDITIONAL FINANCIAL INFORMATION

Other Cash Flow Information

Additional financial information with respect to cash (payments) and receipts are as follows:

	Year ended December 31,		
	2004	2003	2002
		(in millions)	
Interest expense paid	$ (493)	$ (448)	$ (425)
Interest income received	1	5	3
Cash interest expense paid, net	$ (492)	$ (443)	$ (422)
Cash payments for income taxes	$ (27)	$ (384)	$ (331)

Interest Expense, Net

Interest expense, net, consists of:

	Year ended December 31,		
	2004	2003	2002
		(in millions)	
Interest income	$ 26	$ 22	$ 22
Interest expense	(491)	(514)	(407)
Total interest expense, net	$ (465)	$ (492)	$ (385)

Video Programming, High-Speed Data and Digital Phone Expenses

Video programming, high-speed data and Digital Phone expenses included within cost of revenues consist of:

	Year ended December 31,		
	2004	2003	2002
		(in millions)	
Video programming	$ 1,865	$ 1,662	$ 1,451
High-speed data connectivity	134	130	198
Digital Phone connectivity	15	1	-
Total	$ 2,014	$ 1,793	$ 1,649

Other Current Liabilities

Other current liabilities consist of:

	As of December 31, 2004	As of December 31, 2003
	(in millions)	
Accrued compensation and benefits	$ 181	$ 165
Accrued franchise fees	117	104
Accrued interest	96	95
Accrued office and administrative costs	66	68
Accrued sales and other taxes	77	78
Accrued marketing support	58	63
Other accrued expenses	189	203
Total	$ 784	$ 776

14. SUBSEQUENT EVENTS

Adelphia Acquisition Agreement

On April 20, 2005, a subsidiary of the Company, Time Warner NY Cable LLC ("TW NY"), and Comcast each reached separate definitive agreements to acquire, collectively, substantially all the assets of Adelphia Communications Corporation ("Adelphia") for a total of $12.7 billion in cash (of which TW NY will pay $9.2 billion and Comcast will pay the remaining $3.5 billion) and 16% of the common stock of TWC.

At the same time that Comcast and TW NY entered into the Adelphia agreements, Comcast, TWC and/or their respective affiliates entered into agreements providing for the redemption of Comcast's interest in TWC and TWE ("TWC and TWE Redemption Agreements"). Specifically, Comcast's 17.9% interest in TWC will be redeemed in exchange for stock of a subsidiary of TWC holding cable systems serving approximately 587,000 subscribers, as well as approximately $1.856 billion in cash. In addition, Comcast's 4.7% interest in TWE will be redeemed in exchange for interests in a subsidiary of TWE holding cable systems serving approximately 168,000 subscribers, as well as approximately $133 million in cash. TWC, Comcast and their respective subsidiaries will also swap certain cable systems to enhance their respective geographic clusters of subscribers ("Cable Swaps").

In connection with the transaction, Time Warner will contribute its current 1% equity interest and $2.4 billion preferred interest in TWE to a newly created subsidiary of TWC that will be the parent of TW NY in exchange for a non-voting common equity interest in such subsidiary having an equivalent fair value (approximately $2.9 billion).

Upon closing of these proposed transactions, TWE will have approximately 3.4 million basic subscribers. TWC will gain systems passing approximately 7.5 million homes, with approximately 3.5 million basic subscribers. TWC will then manage a total of approximately 14.4 million basic subscribers. Time Warner will own approximately 84% of TWC's common stock, and approximately 12% of TW NY's parent in the form of non-voting common stock valued at approximately $2.9 billion. TWC will become a publicly traded company at the time of closing. At March 31, 2005, the general partnership interests in TWE were held collectively by three wholly owned subsidiaries of TWC. Upon closing of the proposed transactions, TWE's general partnership interests are expected to be held by TW NY or a wholly owned subsidiary of TW NY (55%) and two wholly owned subsidiaries of TWC (45%).

The acquisition of Adelphia and the acquisition of certain cable systems acquired by TWC as part of the Cable Swaps will be accounted for under FASB Statement of Financial Accounting Standards No. 141 "*Business Combinations*" ("FAS 141") as a purchase business combination. Also, TWC will account for the TWE Redemption as the acquisition of a minority interest under FAS 141. Time Warner will account for the TWC Redemption as an acquisition of a minority interest under FAS 141. The TWC Redemption will be accounted for at TWC as a distribution to an owner, and will reduce TWC's equity by the fair value of the distribution. The related purchase accounting associated with this step acquisition will be pushed down to TWC. TWC will record its minority interest associated with Time Warner's 12% interest in the parent of TW NY based on the historical book value of Time Warner's 1% equity interest and $2.4 billion preferred interest in TWE. Additionally, a gain or loss will be recognized to the extent that the fair value of the 17.9% and the 4.7% interests are greater than or less than the book basis of the cable systems and cash held by the subsidiaries distributed to Comcast in the redemption transactions.

These transactions are subject to customary regulatory review and approvals, including Hart-Scott-Rodino antitrust approval, FCC and local franchise approvals, as well as, in the case of the Adelphia acquisition, the Adelphia bankruptcy process, which involves approvals by the bankruptcy court having jurisdiction over Adelphia's Chapter 11 case and Adelphia's creditors. Closing is expected in about 9 to 12 months.

The purchase of Adelphia's assets is not dependent on the occurrence of the Cable Swaps and redemption transactions between Time Warner and Comcast. Furthermore, if Comcast fails to obtain certain necessary governmental authorizations, TW NY has agreed that it will also acquire the cable operations of Adelphia that would have been acquired by Comcast, with the additional purchase price payable in cash or TWC stock at the Company's discretion.

Amendments to Existing Arrangements

In addition to agreeing to the purchase of Adelphia's assets, the TWC and TWE Redemption Agreements and Cable Swaps described above, the Company and Comcast amended certain existing agreements. The following is a brief description of these amendments:

Registration Rights Agreement. In conjunction with the restructuring of TWE completed in 2003 (the "TWE Restructuring"), TWC granted Comcast and certain affiliates registration rights related to the shares of TWC Class A Common Stock acquired by Comcast in the TWE Restructuring. As part of the agreements described above, Comcast generally has agreed not to exercise or pursue registration rights with respect to the TWC Class A Common Stock owned until the date upon which the TWC Redemption Agreement described above is terminated in accordance with its terms or, if earlier, the date on which TWC's offering of equity securities to the public for cash for its own account exceeds $2.1 billion.

Tolling and Optional Redemption Agreement. On April 20, 2005, a subsidiary of TWC, Comcast and certain of its affiliates entered into an amendment (the "Second Tolling Amendment") to the Tolling and Optional Redemption Agreement, dated as of September 24, 2004, and previously amended on February 17, 2005. Pursuant to the Second Tolling

Amendment, the parties agreed that if the TWC Redemption Agreement terminates and certain other conditions are satisfied, TWC will redeem 23.8% of Comcast's 17.9% ownership of TWC Class A Common Stock in exchange for 100% of the common stock of a TWC subsidiary which will own certain cable systems serving approximately 148,000 basic subscribers plus approximately $422 million in cash.

A more complete description of the transactions described above may be found in Time Warner's Current Reports on Form 8-K, each dated April 20, 2005 and filed with the Securities and Exchange Commission ("SEC") on April 21, 2005 and April 27, 2005.

Purchase of Urban Cable Works of Philadelphia

In conjunction with the agreement to acquire Adelphia, Urban Cable would be transferred to Comcast as part of the Cable Swaps. For additional details, please refer to the Adelphia Acquisition Agreement discussion above.

Joint Venture Restructuring

In conjunction with the Adelphia transaction, TWC and Comcast agreed that if the Adelphia acquisition and Cable Swaps occur and if Comcast receives the pool consisting of the Kansas City, Southwest Texas and New Mexico systems upon distribution of the TKCCP assets as described above, Comcast will have an option, exercisable for 180 days commencing one year after the date of such distribution, to require TWC or a subsidiary to transfer to Comcast, in exchange for the Southwest Texas systems, certain cable systems held by TWE and its subsidiaries.

TIME WARNER CABLE INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

OVERVIEW

Time Warner Cable Inc. ("TWC" or the "Company") is the second largest cable operator in the United States (in terms of subscribers served). TWC managed approximately 10.9 million basic cable subscribers (including approximately 1.6 million subscribers of unconsolidated investees) at December 31, 2004, in highly clustered and upgraded systems in 27 states. TWC was formed as part of the restructuring of Time Warner Entertainment Company, L.P. ("TWE"), completed on March 31, 2003 (the "TWE Restructuring"), as described below. Time Warner Inc. ("Time Warner") currently holds a 79% economic interest in TWC's business and the remaining 21% economic interest is held by trusts established for the benefit of Comcast Corporation (Comcast Corporation, its affiliates and disposition trusts established for its benefit, "Comcast"). The financial results of the operations of TWC are consolidated by Time Warner.

TWC offers three basic products — video, high-speed data and its newest service, Digital Phone. Video is TWC's largest product in terms of revenues generated; however, the growth of its customer base for video cable service is limited, as the customer base has matured and industry-wide competition from direct-to-home satellite services has increased. Nevertheless, TWC is continuing to increase its video revenue through its offerings of advanced digital video services. Digital video, video-on-demand, subscription-video-on-demand and digital video recorders ("DVRs") are available in all of the Company's 31 divisions. TWC's digital video subscriber base provides a broad base of potential customers for these advanced services. Video programming costs represent a major component of TWC's expenses and continue to rise across the sector, especially for sports programming.

High-speed data service has been one of TWC's fastest-growing products over the past several years and is a key driver of its results. However, its rate of subscriber growth has begun to slow, reflecting increasing penetration rates and increased competition from digital subscriber lines (DSL).

TWC's new voice product, Digital Phone, had been launched in all of its divisions by December 31, 2004, and was available to over two-thirds of TWC's homes passed. Digital Phone provides unlimited local, in-state and domestic long distance calling, as well as call waiting, caller ID, voice mail and enhanced "911" services, for a fixed monthly fee. Digital Phone enables TWC to offer its customers a combined, easy-to-use package of video, high-speed data and voice services and to compete effectively against similar bundled products offered by competitors.

In addition to the subscription services described above, TWC also earns revenue by selling advertising time to national, regional and local businesses.

BUSINESS TRANSACTIONS AND DEVELOPMENTS

Restructuring of Time Warner Entertainment Company, L.P.

On March 31, 2003, Time Warner and Comcast completed the TWE Restructuring. As part of the TWE Restructuring, (i) substantially all the assets of TWI Cable (a wholly owned subsidiary of Time Warner) and TWE were acquired by TWC, (ii) TWE's non-cable businesses, including Warner Bros., Home Box Office, and TWE's interests in The WB Television Network, Comedy Central (which was subsequently sold) and the Courtroom Television Network (collectively, the "Non-cable Businesses") were distributed to Time Warner, (iii) Time Warner acquired an incremental ownership interest in the combined cable operations from Comcast in exchange for mandatorily convertible preferred stock of Time Warner, (iv) TWC repaid $2.1 billion of pre-existing indebtedness to an affiliate of Comcast and (v) Comcast exchanged a portion of its ownership interest in TWE for an increased ownership interest in TWC. TWE is now a consolidated subsidiary of TWC, with TWC indirectly holding 94.3% of TWE's residual equity interest.

Subsequent to the TWE Restructuring, Comcast's 21% economic interest in TWC is held through a 17.9% direct common stock ownership interest in TWC (representing a 10.7% voting interest) and a limited partnership interest in TWE (representing a 4.7% residual equity interest). Time Warner's 79% economic interest in TWC is held through an 82.1% direct common ownership interest in TWC (representing an

89.3% voting interest) and a limited partnership interest in TWE (representing a 1% residual equity interest). Time Warner also holds a $2.4 billion mandatorily redeemable preferred equity interest in TWE. In connection with the TWE Restructuring, Time Warner effectively increased its economic ownership interest in TWE from approximately 73% to approximately 79%. This acquisition by Time Warner of this additional 6% interest in TWE, as well as Comcast's exchange of a portion of its interest in TWE for a 17.9% interest in TWC, were accounted for at fair value as step acquisitions. The total purchase consideration for the additional 6% interest in TWE was approximately $4.6 billion ($3.2 billion of the total purchase consideration was related to the discontinued operations of the Non-cable Businesses). These step acquisitions resulted in a fair value adjustment of $2.362 billion which is reflected as an increase in cable franchise intangibles and franchise-related customer relationships, with a corresponding increase in contributed capital. Time Warner's purchase accounting for the TWE Restructuring was pushed down to the financial statements of TWC.

Comcast Tolling and Optional Redemption Agreement

On September 24, 2004, TWC entered into a Tolling and Optional Redemption Agreement (the "Agreement") with Comcast. Pursuant to the Agreement, Comcast was granted an option (the "Option"), which originally could be exercised between December 1, 2004 and April 1, 2005, to require TWC to redeem a portion of its Class A Common Stock held by Comcast in exchange for the stock of a TWC subsidiary holding cable systems serving approximately 90,000 basic cable subscribers as of December 31, 2004, and approximately $750 million in cash. The Agreement was amended in February 2005 to extend the expiration date of the Option to 60 days following notice by either TWC or Comcast or, after April 1, 2005, immediately if Comcast irrevocably elects not to exercise the Option. Closing of the transactions contemplated by the Agreement is subject to the exercise of the Option, required governmental and regulatory approvals and other customary closing conditions. As of the date of this report, Comcast has not exercised the Option.

If the Option is exercised, Comcast will reduce its current 21% effective interest in TWC's business to approximately 17% – consisting of a 13.7% common stock interest in TWC and a 4.7% limited partnership interest in TWE. Other than as provided in the Agreement, Comcast cannot require TWC to purchase its interest in TWC.

Upon entering into the Agreement, no cash consideration was exchanged between the Company and Comcast; however, the Company has reclassified the fair value of its Class A Common Stock subject to the Option ($1.065 billion) from shareholders' equity to mandatorily redeemable Class A Common Stock. If the Option is exercised, the Company would account for the transaction as a sale of cable systems and a payment of $750 million in cash for the acquisition of a portion of Comcast's interest in TWC. A gain or loss would be recognized based on the difference in the fair value of the cable systems transferred to Comcast and the Company's book basis in such systems. In addition, Time Warner would apply purchase accounting to the portion of the interest acquired from Comcast. This purchase accounting would be pushed down to TWC.

In connection with the TWE Restructuring, Comcast received (1) customary registration rights relating to its 17.9% interest in the common stock of TWC and (2) the right, at any time following March 31, 2005, to require TWC or Time Warner to purchase all or a portion of Comcast's 4.7% limited partnership interest in TWE at an appraised fair market value. The purchase price payable by TWC or Time Warner as consideration for Comcast's limited partnership interest may be paid in cash, Time Warner or TWC Common Stock (if TWC Common Stock is then publicly traded) or a combination of cash and stock. Following March 31, 2005, Comcast also has the right to sell all or a portion of its interest in TWE to a third party, subject to rights of first refusal by Time Warner and TWC. Under the arrangements entered into by Comcast as part of the process of obtaining FCC approval of Comcast's acquisition of AT&T Broadband, Comcast is obligated to take steps to dispose of its entire interest in TWC and TWE in an orderly process by November 2007, and in any event by May 2008. As of April 15, 2005, Comcast has not exercised its right to require TWC or Time Warner to purchase all or a portion of its 4.7% limited partnership interest in TWE.

The Agreement, as amended, provides that Comcast will not exercise or pursue registration rights with respect to the TWC stock owned by it until the Option expires. This provision of the Agreement supersedes Comcast's request to TWC in December 2003 to register its TWC stock. See Subsequent Events below for additional information on the Tolling and Optional Redemption Agreement and the registration process.

Purchase of Urban Cable Works of Philadelphia

Urban Cable Works of Philadelphia, L.P. ("Urban Cable") is an unconsolidated joint venture of TWC, with approximately 50,000 basic subscribers at December 31, 2004, that operates cable television systems in Philadelphia, Pennsylvania. Urban Cable is 40% owned by TWC and 60% owned by an investment group led by Inner City Broadcasting ("Inner City"). Under a management agreement, TWC is responsible for the day-to-day management of Urban Cable. During 2004, TWC and Inner City settled certain disputes regarding the joint venture for a $34 million cash payment. TWC recorded this settlement payment within selling, general and administrative expenses in 2004.

TWC has also agreed to purchase, subject to receipt of applicable regulatory approvals, all of Inner City's interests in Urban Cable for approximately $53 million in cash. In addition, upon closing, TWC will eliminate in consolidation $67 million of debt and interest owed to it by Urban Cable and will assume $53 million of Urban Cable's third-party debt. On March 3, 2005, the City Council of Philadelphia denied TWC's request for approval of this transaction. TWC believes the denial was invalid, but is unable to predict when the transaction may be completed. For the year ended December 31, 2004, Urban Cable's revenues and Operating Income were $47 million and $3 million, respectively. See Subsequent Events below for additional information of the purchase of Urban Cable.

Joint Venture Restructuring

On May 1, 2004, the Company completed the restructuring of two joint ventures that it manages, Kansas City Cable Partners ("KCCP"), previously a 50-50 joint venture between Comcast and TWE, and Texas Cable Partners, L.P. ("TCP"), previously a 50-50 joint venture between Comcast and the TWE-Advance/Newhouse Partnership ("TWE-A/N"), a subsidiary of TWE. Prior to the restructuring, the Company accounted for its investment in these joint ventures using the equity method. As a result of the restructuring, KCCP was merged into TCP, which was renamed "Texas and Kansas City Cable Partners, L.P." Texas and Kansas City Cable Partners, L.P. served approximately 1.5 million basic video subscribers at December 31, 2004. Following the restructuring, the combined partnership was owned 50% by Comcast and 50% by TWE and TWE-A/N, collectively. Since the net assets of the combined partnership were owned 50% by TWC and 50% by Comcast both before and after the restructuring and there were no changes in the rights or economic interests of either party, the Company viewed the transaction as a non-substantive reorganization to be accounted for at book value, similar to the transfer of assets under common control. In February 2005, TWE's interest in the combined partnership was contributed to TWE-A/N in exchange for preferred equity in TWE-A/N. The Company continues to account for its investment in the restructured joint venture using the equity method. Beginning on June 1, 2006, either TWC or Comcast can trigger a dissolution of the partnership. If a dissolution is triggered, the non-triggering party has the right to choose and take full ownership of one of two pools of the combined partnership's systems — one pool consisting of the Houston systems and the other consisting of the Kansas City, Southwest Texas and New Mexico systems — with an arrangement to distribute the partnership's debt between the two pools. The party triggering the dissolution would own the remaining pool of systems and any debt associated with that pool. See Subsequent Events below for additional information on the joint venture restructuring.

Time Warner Interactive Video Group, Inc.

On December 31, 2003, in connection with the restructuring by Time Warner of its Time Warner Interactive Video Group Inc. ("IVG"), TWC entered into a stock purchase agreement with a subsidiary of Time Warner to purchase all of the outstanding stock of IVG at a purchase price of $7.5 million. IVG was established by Time Warner in 2001 to accelerate the growth of interactive television and to develop certain advanced cable services. The consolidated financial statements of the Company have been restated to include the historical operations of IVG for all periods presented because the transfer of IVG to TWC was a transfer of assets under common control by Time Warner.

Discontinued Operations of TWE-Advance/Newhouse Partnership

On June 24, 2002, TWE and Advance/Newhouse agreed to restructure TWE-A/N, which, on August 1, 2002 (the "Debt Closing Date"), resulted in Advance/Newhouse assuming responsibility for the day-to-day operations of certain TWE-A/N cable systems serving approximately 2.1 million subscribers located primarily in Florida (the "A/N Systems"). As a result, TWE deconsolidated the financial position and operating results of these systems as of the Debt Closing Date. Additionally, all prior period results associated with the A/N Systems, including the historical minority interest allocated to Advance/Newhouse's interest in TWE-A/N, have been reflected as a discontinued operation for all periods presented.

Consolidation of Road Runner

In conjunction with the 2002 TWE-A/N restructuring, TWC effectively acquired Advance/Newhouse's ownership interest in Road Runner. As a result of this acquisition and the concurrent termination of Advance/Newhouse's minority veto rights in Road Runner, the Company consolidated the financial position and results of operations of Road Runner retroactive to the beginning of 2002. Previously, the Company accounted for its investment in Road Runner under the equity method of accounting as Advance/Newhouse held certain veto rights that allowed it to participate in the day-to-day operations of the Road Runner business.

Subsequent Events

Adelphia Acquisition Agreement

On April 20, 2005, a subsidiary of the Company, Time Warner NY Cable LLC ("TW NY"), and Comcast each reached separate definitive agreements to acquire, collectively, substantially all the assets of Adelphia Communications Corporation ("Adelphia") for a total of $12.7 billion in cash (of which TW NY will pay $9.2 billion and Comcast will pay the remaining $3.5 billion) and 16% of the common stock of TWC.

At the same time that Comcast and TW NY entered into the Adelphia agreements, Comcast, TWC and/or their respective affiliates entered into agreements providing for the redemption of Comcast's interest in TWC and TWE ("TWC and TWE Redemption Agreements"). Specifically, Comcast's 17.9% interest in TWC will be redeemed in exchange for stock of a subsidiary of TWC holding cable systems serving approximately 587,000 subscribers, as well as approximately $1.856 billion in cash. In addition, Comcast's 4.7% interest in TWE will be redeemed in exchange for interests in a subsidiary of TWE holding cable systems serving approximately 168,000 subscribers, as well as approximately $133 million in cash. TWC, Comcast and their respective subsidiaries will also swap certain cable systems to enhance their respective geographic clusters of subscribers ("Cable Swaps").

In connection with the transaction, Time Warner will contribute its current 1% equity interest and $2.4 billion preferred interest in TWE to a newly created subsidiary of TWC that will be the parent of TW NY in exchange for a non-voting common equity interest in such subsidiary having an equivalent fair value (approximately $2.9 billion).

Upon closing of these proposed transactions, TWE will have approximately 3.4 million basic subscribers. TWC will gain systems passing approximately 7.5 million homes, with approximately 3.5 million basic subscribers. TWC will then manage a total of approximately 14.4 million basic subscribers. Time Warner will own approximately 84% of TWC's common stock, and approximately 12% of TW NY's parent in the form of non-voting common stock valued at approximately $2.9 billion. TWC will become a publicly traded company at the time of closing. At March 31, 2005, the general partnership interests in TWE were held collectively by three wholly owned subsidiaries of TWC. Upon closing of the proposed transactions, TWE's general partnership interests are expected to be held by TW NY or a wholly owned subsidiary of TW NY (55%) and two wholly owned subsidiaries of TWC (45%).

The acquisition of Adelphia and the acquisition of certain cable systems acquired by TWC as part of the Cable Swaps will be accounted for under FASB Statement of Financial Accounting Standards No. 141 "Business Combinations" ("FAS 141") as a purchase business combination. Also, TWC will account for the TWE Redemption as the acquisition of a minority interest under FAS 141. Time Warner will account for the TWC Redemption as an acquisition of a minority interest under FAS 141. The TWC Redemption will be accounted for at TWC as a distribution to an owner, and will reduce TWC's equity by the fair value of the distribution. The related purchase accounting associated with this step acquisition will be pushed down to TWC. TWC will record its minority interest associated with Time Warner's 12% interest in the parent of TW NY based on the historical book value of Time Warner's 1% equity interest and $2.4 billion preferred interest in TWE. Additionally, a gain or loss will be recognized to the extent that the fair value of the 17.9% and the 4.7% interests are greater than or less than the book basis of the cable systems and cash held by the subsidiaries distributed to Comcast in the redemption transactions.

These transactions are subject to customary regulatory review and approvals, including Hart-Scott-Rodino antitrust approval, FCC and local franchise approvals, as well as, in the case of the Adelphia acquisition, the Adelphia bankruptcy process, which involves approvals by the bankruptcy court having jurisdiction over Adelphia's Chapter 11 case and Adelphia's creditors. Closing is expected in about 9 to 12 months.

The purchase of Adelphia's assets is not dependent on the occurrence of the Cable Swaps and redemption transactions between Time Warner and Comcast. Furthermore, if Comcast fails to obtain certain necessary governmental authorizations, TW NY has agreed that it will also acquire the cable operations of Adelphia that would have been acquired by Comcast, with the additional purchase price payable in cash or TWC stock at the Company's discretion.

Amendments to Existing Arrangements

In addition to agreeing to the purchase of Adelphia's assets, the TWC and TWE Redemption Agreements and Cable Swaps described above, the Company and Comcast amended certain existing agreements. The following is a brief description of these amendments:

Registration Rights Agreement. In conjunction with the restructuring of TWE completed in 2003 (the "TWE Restructuring"), TWC granted Comcast and certain affiliates registration rights related to the shares of TWC Class A Common Stock acquired by Comcast in the TWE Restructuring. As part of the agreements described above, Comcast generally has agreed not to exercise or pursue registration rights with respect to the TWC Class A Common Stock owned until the date upon which the TWC Redemption Agreement described above is terminated in accordance with its terms or, if earlier, the date on which TWC's offering of equity securities to the public for cash for its own account exceeds $2.1 billion.

Tolling and Optional Redemption Agreement. On April 20, 2005, a subsidiary of TWC, Comcast and certain of its affiliates entered into an amendment (the "Second Tolling Amendment") to the Tolling and Optional Redemption Agreement, dated as of September 24, 2004, and previously amended on February 17, 2005. Pursuant to the Second Tolling Amendment, the parties agreed that if the TWC Redemption Agreement terminates and certain other conditions are satisfied, TWC will redeem 23.8% of Comcast's 17.9% ownership of TWC Class A Common Stock in exchange for 100% of the common stock of a TWC subsidiary which will own certain cable systems serving approximately 148,000 basic subscribers plus approximately $422 million in cash.

A more complete description of the transactions described above may be found in Time Warner's Current Reports on Form 8-K, each dated April 20, 2005 and filed with the Securities and Exchange Commission ("SEC") on April 21, 2005 and April 27, 2005.

Purchase of Urban Cable Works of Philadelphia

In conjunction with the agreement to acquire Adelphia, Urban Cable would be transferred to Comcast as part of the Cable Swaps. For additional details, please refer to the Adelphia Acquisition Agreement discussion above.

Joint Venture Restructuring

In conjunction with the Adelphia transaction, TWC and Comcast agreed that if the Adelphia acquisition and Cable Swaps occur and if Comcast receives the pool consisting of the Kansas City, Southwest Texas and New Mexico systems upon distribution of the TKCCP assets as described above, Comcast will have an option, exercisable for 180 days commencing one year after the date of such distribution, to require TWC or a subsidiary to transfer to Comcast, in exchange for the Southwest Texas systems, certain cable systems held by TWE and its subsidiaries.

FINANCIAL STATEMENT PRESENTATION

Revenues

The Company's revenues consist of video revenue, high speed data revenue, Digital Phone revenue and advertising revenue.

Video revenue includes monthly fees for basic, standard and digital services, together with related equipment rental charges, such as charges for set-top boxes, and charges for premium channels and subscription video-on-demand services. Video revenue also includes installation, pay-per-view and video-on-demand charges and franchise fees relating to video charges collected on behalf of local franchise authorities. Several ancillary items are also included within video revenue, such as commissions related to the sale of merchandise by home shopping services and rental income earned on the leasing of antennae attachments on Company transmission towers. In each period presented, these ancillary items constitute less than 2% of video revenue.

High-speed data revenue includes monthly subscriber fees from both residential and commercial subscribers, along with related equipment rental charges, home networking fees, installation charges and, to the extent collected, franchise fees relating to high-speed data services in 2002 and prior years. As a result of a March 2002 FCC ruling, TWC stopped collecting all franchise fees on high-speed data services. High-speed data revenue also includes fees received from the Company's unconsolidated cable system joint ventures and the A/N Systems.

Digital Phone revenue includes monthly subscriber fees from Digital Phone subscribers, along with related equipment rental and installation charges.

Advertising revenue includes the fees charged to local, regional and national advertising customers for advertising placed on the Company's video and high-speed data services. Advertising revenue also includes franchise fees relating to charges collected on behalf of local franchise authorities. Substantially all of advertising revenue is from video outlets. Advertising revenue is divided into three general categories: general third-party advertising, programming vendor advertising and related party advertising. General third-party advertising represents local, regional and national advertising spots sold to parties, excluding the other divisions of Time Warner, who do not provide TWE with programming. Programming vendor advertising represents advertising spots sold to unaffiliated third-party programming vendors to promote their channels, including new channel launches. Related party advertising represents advertising spots sold to other divisions of Time Warner and its affiliates, including Time Warner affiliated programming vendors. Programming vendor and related party advertising can vary significantly from period to period depending on the timing of channel launches and the marketing strategies of the other Time Warner affiliates.

Costs and Expenses

Cost of revenues primarily includes video programming costs, including fees paid to the programming vendors net of certain amounts received from programmers, high-speed data connectivity costs, Digital Phone network costs, and other service related expenses including non-administrative employee costs directly associated with the delivery of products and services to subscribers, maintenance of the Company's delivery systems, franchise fees and other expenses. The Company's programming agreements generally provide that TWC pays a monthly per subscriber fee for each video programming service that is carried.

Selling, general and administrative costs include expenses not directly associated with the delivery of products to subscribers and the maintenance of the Company's delivery systems, administrative salary costs, marketing expenses, billing charges, repair and maintenance costs, management fees paid to Time Warner and other administrative overhead costs, net of management fees received from the Company's unconsolidated cable system joint ventures.

OIBDA and Free Cash Flow

The Company evaluates operating performance based on several factors, including Operating Income (Loss) before Depreciation and Amortization or "OIBDA". Management considers OIBDA to be an important indicator of the operational strength and performance of the business, including the ability to provide cash flows to service debt and fund capital expenditures. OIBDA eliminates the uneven effect of the Company's non-cash depreciation of tangible assets. A limitation of this measure, however, is that it does not reflect the periodic costs of certain capitalized tangible and intangible assets used in generating revenues. Management evaluates the costs of such tangible assets through other financial measures such as capital expenditures, investment spending and return on capital. The Company also evaluates operating performance based on free cash flow. "Free Cash Flow" is cash provided by operations (as defined by accounting principles generally accepted in the United States) less capital expenditures, partnership distributions, dividends paid and principal payments on capital leases, if any. Free Cash Flow is considered to be an important indicator of the Company's liquidity, including its ability to service debt and make strategic investments.

Both OIBDA and Free Cash Flow should be considered in addition to, not as substitutes for, the Company's operating income, net income and various cash flow measures (e.g., cash provided by operations), as well as other measures of financial performance and liquidity reported in accordance with accounting principles generally accepted in the United States.

FUTURE TRENDS

High-speed data services

One of the Company's fastest growing revenue components is high-speed data services. In total, consolidated high-speed data revenue grew from $1.009 billion for the year ended December 31, 2002 to $1.760 billion for the year ended December 31, 2004. The Company expects continued strong growth in residential high-speed data subscribers and revenue for the foreseeable future; however, the rate of growth of both subscribers and revenue may be impacted by intensified competition for subscribers. The Company has also experienced growth in consolidated commercial high-speed data subscribers, which grew from 76,000 as of December 31, 2002 to 151,000 as of December 31, 2004. The number of commercial subscribers and the related revenue is expected to continue to increase as the Company continues to market high-speed data services to small and medium-sized businesses. The Company anticipates that the total costs of providing connectivity to its high-speed data subscribers in 2005 will be in line with its costs in 2004; however, the connectivity cost on a per subscriber basis is expected to decrease.

In the first quarter of 2005, TWC and America Online, Inc. ("AOL") (a segment of Time Warner) announced a strategic agreement to develop a customized broadband offering with attractive pricing for their current Road Runner and AOL subscribers as well as prospects across the TWC coverage area. The Road Runner service will continue to be available on a stand-alone basis for those subscribers who elect not to take the new offering. This agreement will allow AOL to proactively migrate its subscribers to the customized broadband offering and also to share in future subscriber revenues generated. Under the agreement, AOL will manage the advertising and search opportunities for both the new offering and the Road Runner portal, providing an increase in its audience size and potential to earn from online advertising, search, commerce and premium services. The agreement should benefit TWC in 2005 in accelerating its acquisition of high-speed data subscribers and provide its high-speed data customers additional value through access to AOL's programming and features. TWC will also share in a portion of the advertising revenues generated.

Video

The Company's video product, taken as a whole, is relatively mature as compared with its high-speed data services product. Management expects that video revenue will continue to grow in the future, reflecting rate increases and increased revenue from new digitally based services. Digital video subscribers are expected to continue to grow but at relatively slower rates as penetration increases. Over the next several years, the Company expects video revenue growth to be driven by new digital video services, such as video-on-demand, subscription video-on-demand and DVRs, which TWC has introduced over the past few years. Video programming costs are expected to remain one of the Company's largest single expense items for the foreseeable future. Video programming costs have risen in recent years due to several factors, including industry-wide programming cost increases, especially for sports programming, increased use of premium services, the addition of quality programming for more extensive programming packages and service offerings and the launch of video-on-demand services. For these reasons, programming costs will continue to rise, and it is expected that the Company's video product margins will decline over the next few years as programming cost increases outpace growth in video revenue. Programming costs are expected to increase in 2005 at rates similar to what were experienced in 2004.

Advertising

General third-party advertising revenue has increased approximately 11% in 2004, 8% in 2003 and 8% in 2002. Although advertising revenue is expected to continue to grow, it is particularly sensitive to downturns in general economic conditions and to current events. These factors could impact the expected growth rate. Due to their nature, programming vendor advertising revenue and related party advertising revenue can fluctuate significantly from year to year. The Company expects related party and programming vendor advertising revenue to be minimal in 2005. For more information regarding programming vendor and related party advertising, please see "Critical Accounting Policies— Multiple-Element Arrangements."

Capital expenditures and depreciation expense

Overall capital expenditures are expected to increase modestly in 2005 as compared to 2004 due to the continued roll-out of Digital Phone services. Similar to the trend experienced during the past few years, the Company anticipates that much of its future capital expenditures will be tied to growth in subscribers and new services. As the Company devotes a large portion of its capital expenditures to customer premise equipment and other items with relatively short useful lives, the weighted average useful life of plant, property and equipment will decrease, resulting in higher depreciation expense.

Digital Phone Services

In 2004, the Company estimates that the increase in direct operating costs associated with the Digital Phone deployment exceeded incremental revenues by approximately $45 million. This estimate considers only incremental revenue and expenses deemed by management to be attributable to the new Digital Phone product and excludes any allocation of common infrastructure costs.

RESULTS OF OPERATIONS

Full year 2004 compared to full year 2003

Revenues. The Company's revenues increased to $8.484 billion in 2004, compared to $7.699 billion in 2003. Revenues by major category were as follows (in millions):

	Year Ended December 31,		Increase (Decrease)	
	2004	2003	$	%
Video	$ 6,180	$ 5,810	$ 370	6%
High-speed data	1,760	1,422	338	24%
Digital Phone	29	1	28	NM
Advertising	515	466	49	11%
Total Revenues	$ 8,484	$ 7,699	$ 785	10%

NM – Not meaningful

Total video revenues increased by $370 million, or 6%, over 2003, primarily due to increased penetration of advanced digital services and higher cable rates. These items were partially offset by an 0.4% decline in consolidated basic cable subscribers between December 31, 2003 and December 31, 2004. Consolidated digital video subscribers, which are included in the Company's 9.315 million consolidated basic video subscribers (as of December 31, 2004), increased by 408,000, or 11%, to 4.059 million at December 31, 2004, as compared to 3.651 million at December 31, 2003. Basic cable subscribers include all subscribers receiving basic cable service. Digital video subscribers reflect subscribers on any level of video service received via digital technology. Aggregate revenue associated with the Company's advanced digital services, including digital tiers, pay-per-view, video-on-demand, subscription video-on-demand and digital video recorders, increased 25% from $525 million in 2003 to $657 million in 2004.

High-speed data revenues increased in 2004 primarily due to growth in high-speed data subscribers, partially offset by a slight decline in the average revenue per subscriber which resulted from increased promotions. From December 31, 2003 to December 31, 2004, total consolidated residential high-speed data subscribers increased by 577,000 to 3.4 million subscribers. During the same period, consolidated commercial high-speed data subscribers increased by 36,000 to 151,000 at December 31, 2004. Consolidated commercial high-speed data revenue increased from $155 million in 2003 to $196 million in 2004. Consolidated residential high-speed data penetration, expressed as a percentage of service ready homes, increased from 18% at December 31, 2003 to 21% at December 31, 2004. The Company expects continued growth in high-speed data subscribers and revenue, but at a lower rate as penetration increases.

The Company launched its Digital Phone product in the majority of its operating divisions during 2004. At December 31, 2004, the Company had 182,000 consolidated Digital Phone subscribers.

Total advertising revenues increased in 2004 primarily due to an increase in general third-party advertising. General third-party advertising revenue increased by 11% from $443 million in 2003 to $491 million in 2004 due to an increase in the volume of advertising spots sold and, to a lesser extent, an increase in the rates at which the spots were sold. Programming vendor advertising decreased from $12 million in 2003 to $9 million in 2004 reflecting fewer new channel launches. Related party advertising revenue increased from $11 million in 2003 to $15 million in 2004, primarily due to increased advertising by Time Warner's Turner Broadcasting unit. For more information regarding programming vendor and related party advertising, please see "Critical Accounting Policies—Multiple-Element Arrangements."

Cost of revenues. Cost of revenues increased to \$3.723 billion in 2004, compared to \$3.343 billion in 2003, primarily due to higher video programming costs and higher personnel costs associated with the deployment of new services. The components of cost of revenues were as follows (in millions):

	Year Ended December 31,		Increase (Decrease)	
	2004	2003	$	%
Video programming	$ 1,865	$ 1,662	$ 203	12%
Employee	1,060	966	94	10%
High-speed data	134	130	4	3%
Other	664	585	79	14%
Total	$ 3,723	$ 3,343	$ 380	11%

Total video programming costs increased by 12% in 2004. On a per subscriber basis, programming costs increased by 13%, from \$14.80 per month in 2003 to \$16.66 per month in 2004. This increase was primarily attributable to contractual rate increases across the Company's programming line-up, especially for sports programming, and the expansion of service offerings including video-on-demand and subscription-video-on-demand. Video programming costs are expected to increase in 2005 at a rate in line with the rate of increase experienced during 2004, reflecting continued contractual rate increases and expansion of digital service offerings.

Employee costs rose in 2004, in part, as a result of increased headcount driven by customer care enhancement and new product deployment initiatives. Merit-based salary increases and the increased cost of employee benefits, including costs associated with group insurance, also contributed to the increase in employee costs.

High-speed data costs have increased slightly due to an increase in high-speed data customers, partially offset by an industry-wide decline in network costs.

Other costs increased due to the roll-out of the Digital Phone service and increased fees paid to local franchise authorities. The costs associated with Digital Phone service are expected to continue to increase as the deployment continues in 2005.

Selling, general and administrative expenses. Selling, general and administrative expenses increased to \$1.483 billion in 2004 from \$1.376 billion in 2003. This increase of \$107 million, or 8%, over 2003 was primarily due to increased marketing costs associated with the roll-out of new products and services, increased employee costs and increased other administrative costs. The components of selling, general and administrative expenses were as follows (in millions):

	Year Ended December 31,		Increase (Decrease)	
	2004	2003	$	%
Employee	$ 617	$ 588	$ 29	5%
Marketing	285	240	45	19%
Other administrative	581	548	33	6%
Total	$ 1,483	$ 1,376	$ 107	8%

Employee costs increased due to merit-based salary increases, the increased cost of employee benefits and, to a lesser extent, an increase in headcount associated with the roll-out of new services. Employee costs in 2003 included \$15 million of costs associated with the termination of certain employees of Time Warner's former IVG operations. Marketing costs increased due to a heightened focus on aggressive marketing of the Company's broad range of products and services. Other administrative costs increased primarily due to the Company's $34 million settlement in 2004 of a dispute regarding Urban Cable.

Reconciliation of OIBDA to Operating Income and Net Income

The following table reconciles OIBDA to operating income and net income for purposes of the discussions that follow:

	Year Ended December 31, 2004	Year Ended December 31, 2003	% Increase (Decrease)
	(in millions)		
OIBDA	$ 3,278	$ 2,980	10%
Depreciation	(1,438)	(1,403)	2%
Amortization	(76)	(58)	31%
Operating income	1,764	1,519	16%
Interest expense, net	(465)	(492)	(5%)
Income from equity investments, net	40	32	25%
Minority interest expense	(64)	(65)	(2%)
Other income	11	-	NM
Income before income taxes and discontinued operations	1,286	994	29%
Income tax provision	(534)	(412)	30%
Income before discontinued operations	752	582	29%
Income from discontinued operations, net of tax	-	150	(100%)
Net income	$ 752	$ 732	3%

NM – Not meaningful

OIBDA. OIBDA increased by $298 million, or 10%, from $2.980 billion in 2003 to $3.278 billion in 2004. This increase was attributable to revenue gains, partially offset by increases in cost of revenues and selling, general, and administrative expenses. The Company estimates that its 2004 OIBDA includes losses of approximately $45 million related to the roll-out of the new Digital Phone service. This estimate considers only incremental revenues and expenses deemed by management to be attributable to the new Digital Phone service and excludes any allocation of common infrastructure costs.

Depreciation. Depreciation increased 2% to $1.438 billion in 2004 from $1.403 billion in 2003. This increase is the result of an increase in the amount of capital spending on customer premise equipment (and other relatively short-lived assets) in recent years. Due to the increase in such spending, a larger proportion of the Company's property, plant and equipment consists of assets with shorter useful lives in 2004 than in 2003, resulting in an increase in depreciation expense.

Amortization expense. Amortization expense increased to $76 million in 2004 from $58 million in 2003, primarily due to the recognition of a subscriber list intangible of $260 million in conjunction with the TWE Restructuring. The Company had three quarters of amortization expense associated with this subscriber list intangible in 2003 as compared to a full year of amortization expense in 2004.

Operating income. Operating income in 2004 increased to $1.764 billion from $1.519 billion in 2003 due to the increase in OIBDA, offset in part by the increase in depreciation and amortization expense.

Interest expense, net. Net interest expense decreased from $492 million in 2003 to $465 million in 2004. This decrease of $27 million, or 5%, was primarily due to less average debt outstanding on the Company's bank credit facilities. This decrease was partially offset by an increase in variable interest rates and increased interest paid on the Company's $2.4 billion mandatorily redeemable preferred stock, which was outstanding for only three quarters in 2003.

Income from equity investments, net. Income from equity investments, net, increased to $40 million in 2004 compared to $32 million in 2003. This increase was primarily due to reduced losses associated with the former Women's Professional Soccer League joint venture (which was disbanded in 2003) and an increase in the profitability of iN DEMAND and Texas and Kansas City Cable Partners, L.P., partially offset by impairment charges recorded by certain news channel joint ventures.

Minority interest expense. Minority interest expense decreased to $64 million in 2004 from $65 million in 2003. This decrease was due to the reduction in Comcast's direct ownership in TWE from 28% to 4.7% as a result of the TWE Restructuring, partially offset by an increase in the profitability of TWE in 2004.

Other income. The Company recorded $11 million of other income in 2004 related to the reversal of a previously established reserve associated with the dissolution of a former joint venture.

Income tax provision. TWC's income tax provision has been prepared as if the Company operated as a stand-alone taxpayer for all periods presented. TWC had an income tax provision of $534 million in 2004, compared to $412 million in 2003. This increase in provision reflects the corresponding increase in taxable earnings.

Income before discontinued operations. The Company's income before discontinued operations was $752 million in 2004 compared to $582 million in 2003. TWC's 2004 results benefited from an increase in operating income, reduced interest expense, an increase in income from equity investments, reduced minority interest expense and increased other income, offset in part by increased income tax expense.

Net Income. Net income was $752 million in 2004 compared to $732 million in 2003. This increase was due to the increase in income before discontinued operations, partially offset by the absence of any income from discontinued operations in 2004. The discontinued operations of the TWE Non-cable Businesses were distributed to Time Warner in 2003 as part of the TWE Restructuring.

Full year 2003 compared to full year 2002

Revenues. Revenues increased to $7.699 billion in 2003, compared to $7.035 billion in 2002. This improvement was due to increases in video and high-speed data revenue, partially offset by a decrease in advertising revenue. Revenues by major category were as follows (in millions):

	Year Ended December 31,		Increase (Decrease)	
	2003	2002	$	%
Video	$ 5,810	$ 5,365	$ 445	8%
High-speed data	1,422	1,009	413	41%
Digital Phone	1	-	1	NM
Advertising	466	661	(195)	(30%)
Total Revenues	$ 7,699	$ 7,035	$ 664	9%

NM – Not meaningful

Total video revenues increased in 2003, primarily as a result of higher rates, and, to a lesser extent, an increase in digital subscribers. Consolidated digital video subscribers, which are included in the Company's 9.347 million consolidated basic video subscribers (as of December 31, 2003), increased by 551,000, or 18%, to 3.651 million at December 31, 2003, as compared to 3.100 million at December 31, 2002. Aggregate revenue associated with the Company's enhanced digital services, including digital video, pay-per-view, video-on-demand, subscription video-on-demand, and digital video recorders, increased 43% from $369 million in 2002 to $525 million in 2003.

High-speed data revenues increased in 2003 primarily due to growth in high-speed data subscribers, partially offset by a decline in the average revenue per subscriber, primarily due to increased promotions. From December 31, 2002 to December 31, 2003, total consolidated residential high-speed data subscribers increased by 676,000 to 2.8 million subscribers. During the same period, consolidated commercial high-speed data subscribers increased from 76,000 at December 31, 2002 to 115,000 at December 31, 2003.

Consolidated commercial high-speed data revenue increased from $33 million in 2002 to $155 million in 2003. Consolidated residential high-speed data penetration, expressed as a percentage of service ready homes, increased from 15% at December 31, 2002 to 18% at December 31, 2003.

Total advertising revenues declined in 2003 primarily due to a decline in related party and programming vendor advertising. General third-party advertising revenue increased by 9% from $405 million in 2002 to $443 million in 2003 due to an increase in the volume of advertising spots sold and an increase in the rates at which the spots were sold. Programming vendor advertising decreased from $124 million in 2002 to $12 million in 2003, primarily due to fewer new channel launches. Related party advertising revenue decreased from $132 million in 2002 to $11 million in 2003, primarily due to decreased advertising by Time Warner's America Online unit. For more information regarding programming vendor and related party advertising, please see "Critical Accounting Policies—Multiple-Element Arrangements."

Cost of revenues. Cost of revenues increased to $3.343 billion in 2003, compared to $3.033 billion in 2002, primarily due to higher video programming costs and higher personnel costs associated with the deployment of new services, partially offset by a decline in high-speed data connectivity costs. The components of cost of revenues were as follows (in millions):

	Year Ended December 31,		Increase (Decrease)	
	2003	2002	$	%
Video programming......	$ 1,662	$ 1,451	$ 211	15%
Employee..................	966	853	113	13%
High-speed data............	130	198	(68)	(34%)
Other........................	585	531	54	10%
Total.....................	$ 3,343	$ 3,033	$ 310	10%

Total video programming costs increased by 15% in 2003. On a per subscriber basis, programming costs increased by 14%, from $13.02 per month in 2002 to $14.80 per month in 2003. This increase is primarily attributable to contractual rate increases across the Company's programming line-up, especially for sports programming, and the expansion of service offerings including video-on-demand and subscription-video-on-demand.

Employee costs rose in 2003, in part, as a result of higher headcount associated with customer care and new product initiatives. Merit-based salary increases and the increased cost of employee benefits, including costs associated with group insurance and defined benefit pension plans, also contributed to the increase in employee costs.

High-speed data costs, which are primarily associated with connectivity, decreased due to an industry-wide decline in such connectivity costs.

Other costs increased primarily due to increases in repairs, maintenance, software and consulting costs.

Selling, general and administrative expenses. Selling, general and administrative expenses increased to $1.376 billion in 2003 from $1.304 billion in 2002. This increase of $72 million, or 6%, over 2002 was primarily due to increased employee and marketing costs associated with the roll-out of new products and services, partially offset by a decline in administrative costs. The components of selling, general and administrative expenses were as follows (in millions):

	Year Ended December 31, 2003	Year Ended December 31, 2002	Increase (Decrease) $	Increase (Decrease) %
Employee	$ 588	$ 548	$ 40	7%
Marketing	240	223	17	8%
Other administrative	548	533	15	3%
Total	$ 1,376	$ 1,304	$ 72	6%

Employee costs increased due to an increase in headcount associated with the roll-out of new services and increased subscriber transactions. Merit-based salary increases and the increased cost of employee benefits, including costs associated with pension plans and costs associated with group insurance, also contributed to the increase in employee costs. Employee costs in 2003 include $15 million of costs associated with the termination of certain employees of Time Warner's former IVG operation. Marketing costs increased due to a heightened focus on aggressive marketing of the Company's broad range of products and services. Other administrative costs increased primarily due to an increase in bad debt expense and an increase in payment processing costs associated with an increase in the number of customers who pay their monthly bill with a credit card, partially offset by a decline in amounts paid to Time Warner for certain corporate services provided by Time Warner.

Reconciliation of OIBDA to Operating Income and Net Income

The following table reconciles OIBDA to operating income and net income for purposes of the discussions that follow:

	Year Ended December 31, 2003	Year Ended December 31, 2002	% Increase (Decrease)
	(in millions)		
OIBDA	$ 2,980	$ (7,846)	NM
Depreciation	(1,403)	(1,207)	16%
Amortization	(58)	(7)	NM
Operating income (loss)	1,519	(9,060)	NM
Interest expense, net	(492)	(385)	28%
Income from equity investments, net	32	12	NM
Minority interest expense	(65)	(118)	(45%)
Other expense	-	(420)	NM
Income (loss) before income taxes, discontinued operations and cumulative effect of an accounting change	994	(9,971)	NM
Income tax provision	(412)	(283)	NM
Income (loss) before discontinued operations and cumulative effect of an accounting change	582	(10,254)	NM
Income from discontinued operations, before cumulative effect of an accounting change, net of tax	150	848	(82%)
Cumulative effect of accounting change	-	(27,971)	NM
Net income (loss)	$ 732	$ (37,377)	NM

NM – Not meaningful

OIBDA. OIBDA increased to $2.980 billion in 2003 from $(7.846) billion in 2002. Included in the 2002 results were a $10.550 billion impairment of goodwill that was recorded as an operating expense and a $6 million gain on the sale of a cable system, which affect comparability to 2003. Excluding these items from 2002, OIBDA increased by $282 million, or 10%, from $2.698 billion in 2002 to $2.980 billion in 2003. This increase was attributable to revenue gains, partially offset by increases in cost of revenues and selling, general and administrative expenses.

Depreciation. Depreciation increased to $1.403 billion in 2003 from $1.207 billion in 2002. This increase of $196 million, or 16%, compared to 2002 was primarily due to the composition of TWC's property, plant and equipment. As a result of the completion of the cable system upgrades in mid-2002 and an increase in the amount of capital spending on customer premise equipment in recent years, a larger proportion of property, plant and equipment consisted of assets with shorter useful lives in 2003 than in 2002.

Amortization expense. Amortization expense increased to $58 million in 2003 from $7 million in 2002, primarily due to the recognition of a subscriber list intangible of $260 million in conjunction with the TWE Restructuring and associated amortization of approximately $49 million in 2003.

Operating income (loss). Operating income in 2003 increased to $1.519 billion from a loss of $9.060 billion in 2002 due to the increase in OIBDA, offset in part by the increase in depreciation and amortization expense.

Interest expense, net. Net interest expense increased to $492 million in 2003 from $385 million in 2002. This increase of $107 million, or 28%, was primarily due to interest on the $2.4 billion mandatorily redeemable preferred equity interest held by Time Warner as a result of the TWE Restructuring, offset in part by declining interest rates on variable rate debt and less average debt outstanding.

Income from equity investments, net. Income from equity investments, net, increased to $32 million in 2003 as compared to $12 million in 2002. The increase of $20 million is primarily due to the increased profitability of Texas Cable Partners in 2003.

Minority interest (expense) income, net. Minority interest expense decreased to $65 million in 2003 from $118 million in 2002. This decrease of $53 million is primarily due to the reduction in Comcast's direct ownership in TWE from 28% to 4.7% as a result of the TWE Restructuring.

Other expense. Included in the 2002 results was a $420 million impairment charge recorded on the Company's interests in Texas Cable Partners, Kansas City Cable Partners, and Urban Cable Works during the fourth quarter of 2002. No impairment charge was recorded in 2003.

Income tax provision. TWC's income tax provision has been prepared as if TWC operated as a stand-alone taxpayer for all periods presented. TWC had an income tax provision of $412 million in 2003, compared to $283 million in 2002. This increase in provision reflects the corresponding increase in taxable earnings.

Income (loss) before discontinued operations and cumulative effect of an accounting change. Income before discontinued operations and cumulative effect of an accounting change was $582 million in 2003 compared to a net loss of $10.254 billion in 2002. The loss before discontinued operations and cumulative effect of an accounting change in 2002 included a $10.550 billion pretax charge relating to the write-down of goodwill and a pretax charge of $420 million relating to the write-down of equity investments. The Company's 2003 results benefited from an increase in revenues, an increase in income from equity investments, net, and reduced net minority interest expense, offset in part by increases in cost of revenues, selling, general and administrative expenses, depreciation expense, amortization expense, interest expense, and income tax expense.

Net Income (loss). Net income was $732 million in 2003, compared to a net loss of $37.377 billion in 2002. This improvement was primarily due to the cumulative effect of an accounting change of $27.971 billion recorded in 2002 in connection with the adoption of FAS 142 and the increase in income before discontinued operations and cumulative effect of an accounting change in 2003. These positive influences were partially offset by a decrease in income from discontinued operations, net of tax.

FINANCIAL CONDITION AND LIQUIDITY

At December 31, 2004, TWC had $7.299 billion of debt and mandatorily redeemable preferred equity and $102 million of cash and cash equivalents, representing net debt of $7.197 billion, and shareholders' equity of $18.934 billion. At December 31, 2003, TWC had $8.368 billion of total debt and mandatorily redeemable preferred equity and $329 million of cash and cash equivalents, representing net debt of $8.039 billion, and shareholders' equity of $19.261 billion. As discussed in further detail below, management believes that cash provided by operating activities, cash and equivalents and borrowing capacity are sufficient to fund TWC's capital and liquidity needs for the foreseeable future.

Cash Flows

Operating activities. Cash provided by operating activities increased from $2.128 billion in 2003 to $2.661 billion for 2004. Excluding the cash flow provided from discontinued operations in 2003 ($196 million), the Company's cash provided by operating activities increased from $1.932 billion in 2003 to $2.661 billion in 2004. This increase of $729 million over 2003 was principally due to a decrease in cash taxes paid ($357 million), an increase in OIBDA ($298 million) and a decrease in contributions to the Company's pension plans ($60 million).

Cash provided by operating activities decreased from $2.592 billion in 2002 to $2.128 billion for 2003. Excluding the cash flow provided from discontinued operations in 2003 ($196 million) and 2002 ($389 million), the Company's cash provided by operating activities decreased from $2.203 billion in 2002 to $1.932 billion in 2003. This decrease of $271 million was principally due to increased pension contributions ($208 million), increased cash taxes paid ($53 million) and an increase in working capital requirements, partially offset by the increase in OIBDA (excluding the non-cash impairment charges in 2002).

Investing activities. Cash used by investing activities decreased from $1.930 billion in 2003 to $1.816 billion in 2004. The decline was principally due to the decrease in cash used by investing activities of discontinued operations and decreased investment and acquisition expenditures. This decline was partially offset by increased capital expenditures, which was primarily due to the Company's roll-out of Digital Phone. The Company spent $1.712 billion and $1.637 billion on capital expenditures related to the Company's continuing operations during 2004 and 2003, respectively.

Cash used by investing activities decreased to $1.930 billion in 2003, compared to $2.397 billion in 2002. This decline was principally due to a decrease in cash used by investing activities of discontinued operations, as well as a decrease in capital expenditures combined with a decreased level of investments and acquisitions.

The Company anticipates an increase in overall capital expenditures in 2005 from those in 2004 primarily attributable to the launch of Digital Phone services. The Company expects that a substantial portion of capital expenditures in 2005 will be dedicated to purchases of customer premise equipment. TWC's capital expenditures consist of the following major categories:

	Year Ended December 31,		
	2004	2003	2002
		(in millions)	
Customer premise equipment	$ 719	$ 715	$ 813
Scalable infrastructure	205	173	188
Line extensions	239	214	192
Upgrade/rebuild	139	175	224
Support capital	410	360	396
Total capital expenditures	$ 1,712	$ 1,637	$ 1,813

Financing activities. Cash used by financing activities increased from $909 million for 2003 to $1.072 billion for 2004. The increase was primarily due to the $339 million increase in net repayments of debt, partially offset by a decline in cash used by investing activities of discontinued operations.

Cash used (provided) by financing activities decreased from $(579) million in 2002 to $909 million for 2003. The decline is primarily due to the $1.322 billion increase in net repayments on debt, as well as a increase in cash used by financing activities of discontinued operations.

Free Cash Flow

Reconciliation of Cash Provided by Operations to Free Cash Flow

	Year Ended December 31,		
	2004	2003	2002
		(in millions)	
Cash provided by operations	$ 2,661	$ 2,128	$ 2,592
Reconciling items:			
Income from discontinued operations before cumulative effect of an accounting change	-	(150)	(848)
Adjustments relating to the operating cash flow of discontinued operations	-	(46)	459
Cash provided by continuing operating activities	2,661	1,932	2,203
Less:			
Capital expenditures from continuing operations	(1,712)	(1,637)	(1,813)
Partnership tax distributions, stock option distributions and principal payments on capital leases of continuing operations	(11)	(33)	(7)
Free cash flow	$ 938	$ 262	$ 383

The Company's Free Cash Flow increased to $938 million during 2004 as compared to $262 million during 2003. This increase of $676 million was driven by lower cash tax payments ($357 million), an increase in OIBDA ($298 million) and a decrease in contributions to the Company's pension plans ($58 million), partially offset by an increase in capital expenditures from continuing operations ($75 million).

The Company's free cash flow in 2003 was $262 million, as compared to $383 million in 2002. This decline was driven by an increase in working capital requirements in 2003, primarily associated with the decrease in accounts payable in 2003 resulting from significant capital expenditures made in the fourth quarter of 2002 and $208 million of pension contribution in 2003, as compared to no pension contributions in 2002, partially offset by an increase in OIBDA.

New Financing Arrangements

On November 23, 2004, the Company and TWE (the "Borrowers") entered into an amended and restated $4.0 billion senior unsecured five-year revolving credit agreement (the "Credit Agreement") with a syndicate of financial institutions. The Credit Agreement amends and restates the Borrowers' previous $2.0 billion five-year revolving credit agreement and replaces the $1.0 billion 364-day revolving credit agreement and the $500 million three-year term loan agreement.

Borrowings under the Credit Agreement bear interest at a rate based on the credit rating of TWC, which rate is currently LIBOR plus 0.39%. In addition, the Borrowers are required to pay a facility fee of 0.11% per annum on the aggregate commitments under the Credit Agreement. An additional usage fee of 0.10% of the outstanding amounts under the Credit Agreement is incurred if and when such amounts exceed 50% of the aggregate commitments thereunder. The Credit Agreement provides same-day funding capability and a portion of the commitments, not to exceed $300 million at any time, may be used for the issuance of letters of credit. The Credit Agreement contains representations, warranties, covenants and events of default which are substantially identical to those contained in the Borrowers' previous $2.0 billion five-year credit agreement, including, without limitation, a maximum leverage ratio covenant of 5.0 times consolidated EBITDA of TWC and a minimum interest coverage covenant of 2.0 times consolidated cash interest expense of TWC. Each of these terms, ratios and related financial metrics are defined in the Credit Agreement. The Credit Agreement does not contain any credit ratings-based defaults or covenants, nor any ongoing covenant or representation specifically relating to a material adverse change in TWC's or TWE's financial condition or results of operations. Borrowings may be used for general corporate purposes and unused credit is available to support commercial paper borrowings. As of December 31, 2004 there were no borrowings or letters of credit outstanding under the Credit Agreement; however, the Company's $1.523 billion of outstanding commercial paper is supported by the Credit Agreement.

The Borrowers have cross-guaranteed their respective obligations under the Credit Agreement. In addition, Warner Communications Inc. and American Television and Communications Corporation (both indirect wholly-owned subsidiaries of Time Warner but not subsidiaries of TWC) (the "Guarantors") have each guaranteed a pro-rata portion of TWE's obligations under the Credit Agreement (including TWE's obligations under its guarantee of TWC's obligations), although there are generally no restrictions on the ability of the Guarantors to transfer material assets (other than their interests in TWC or TWE) to parties that are not guarantors. The facility ranks pari passu with the Company's other unsecured senior indebtedness. The Credit Agreement will expire on November 23, 2009, at which time any outstanding amounts under the Credit Agreement will be due and payable.

TWE maintains a $1.5 billion unsecured commercial paper program. Additionally, in the second quarter of 2004, TWC established a $2.0 billion unsecured commercial paper program. The combined total of the unsecured notes outstanding at any time under these commercial paper programs (the "Notes") may not exceed $3.0 billion. The Company is a guarantor of Notes issued by TWE, and TWE is a guarantor of Notes issued by TWC. In addition, the Guarantors have each guaranteed a pro rata portion of the obligations under the Notes, although there are generally no restrictions on the ability of the Guarantors to transfer material assets (other than their interests in TWC or TWE) to parties that are not guarantors. The Notes rank pari passu with the Company's and TWE's other unsecured senior indebtedness.

Outstanding Debt and Mandatorily Redeemable Preferred Equity and Available Financial Capacity

The Company's debt, mandatorily redeemable preferred equity and unused borrowing capacity, as of December 31, 2004 are as follows:

Facility	Interest Rate at December 31, 2004	Maturity	Outstanding Balance at December 31, 2004	Unused Capacity [b]
			(in millions)	
TWE notes and debentures	7.557% (a)	2008-2033	$ 3,367	$ -
Bank credit agreements and commercial paper programs	2.480%	2009	1,523	2,579
Mandatorily redeemable preferred equity	8.059%	2023	2,400	-
Capital leases and other (includes $1 million of debt due within one year)			9	-
Total			$ 7,299	$ 2,579

(a) Calculated as a weighted average effective interest rate of the various debt issuances outstanding.
(b) Unused capacity includes $102 million of cash and cash equivalents.

The Company has submitted a joint bid, along with Comcast, to acquire the assets of Adelphia Communications Corporation ("Adelphia") in connection with the auction process initiated by Adelphia. If successful, the Company's net debt would increase.

Rating Triggers and Financial Covenants

TWC's borrowing facilities contain customary covenants. A breach of such covenants 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 facility and/or require immediate payment of outstanding debt. Additionally, in the event that the Company's credit rating decreases, the cost of maintaining the facilities and of borrowing under the Credit Agreement increases and, conversely, if the ratings improve, such costs decrease. There are no rating based defaults or covenants in any of TWC's borrowing facilities. As of December 31, 2004 and through the issuance date of the Company's consolidated financial statements, TWC was in compliance with all covenants and had leverage and interest coverage of approximately 1.4 times and 6.7 times, respectively. Management does not foresee that the Company will have any difficulty complying with the covenants currently in place in the foreseeable future.

For so long as TWC's indebtedness is, in Time Warner's reasonable judgment, attributable to Time Warner in evaluating Time Warner's credit profile, TWC may not, without the consent of Time Warner, create, incur or guarantee any indebtedness other than to Time Warner, including preferred equity, or rental obligations, if the Company's ratio of indebtedness plus six times its annual rental expense to EBITDA, as defined in the Parent Agreement between TWC and Time Warner, plus rental expense, or "EBITDAR," then exceeds or would exceed 3:1.

Firm Commitments

TWC has commitments under various firm contractual arrangements to make future payments for goods and services. These firm commitments secure future rights to various assets and services to be used in the normal course of operations. For example, TWC is contractually committed to make some minimum lease payments for the use of property under operating lease agreements. In accordance with current accounting rules, the future rights and obligations pertaining to these contracts are not reflected as assets or liabilities on the accompanying consolidated balance sheet.

TWE-A/N and Comcast are parties to a funding agreement that requires the parties to provide additional funding to Texas and Kansas City Cable Partners L.P. on a month-to-month basis in an amount to enable certain Texas systems (i.e., Houston and south Texas systems) to maintain compliance with financial covenants under its bank credit facilities. Currently, TWE-A/N and Comcast each fund half of the total obligation under the funding agreement. The Company's funding obligations under the funding agreement totaled $33 million, $83 million and $70 million for the years ended December 31, 2004, 2003 and 2002, respectively. Upon completion of the Texas Cable Partners and Kansas City Cable Partners restructuring in May 2004, TWE-A/N's funding obligation was automatically extended until all amounts borrowed under the Texas systems' senior credit agreement have been repaid and the senior credit agreement has been terminated. As part of the restructuring, all of the assets and liabilities of Texas and Kansas City Cable Partners L.P. have been grouped into two comparable pools. Upon delivery of a dissolution notice by either partner, which can occur no earlier than June 1, 2006, the partner receiving the dissolution notice will choose and take full ownership of a pool of assets and liabilities that will be distributed to it upon dissolution. The other partner will receive and take full ownership of the other pool of assets and liabilities upon dissolution. After the pools have been allocated, each partner will provide funding under the funding agreement pro rata based on the amount of the debt incurred under the senior credit facility that is allocated to the pool selected by that partner.

The following table summarizes the Company's material firm commitments at December 31, 2004 and the timing of and effect that these obligations are expected to have on liquidity and cash flow in future periods. This table excludes commitments related to other entities, including certain unconsolidated equity method investees and the A/N systems, which reimburse TWC for certain programming and fixed assets that TWC purchases on their behalf in connection with the management services agreement. TWC expects to fund these firm commitments with cash provided by operating activities generated in the normal course of business.

	Firm Commitments				
	2005	2006 - 2007	2008 - 2009	2010 and thereafter	Total
			(in millions)		
Programming purchases [a]	$ 1,853	$ 3,478	$ 2,301	$ 1,873	$ 9,505
Outstanding debt obligations	-	-	2,123	5,008	7,131
Facility leases [b]	51	87	72	196	406
Data processing services	30	58	58	86	232
High-speed data connectivity	22	10	-	-	32
Digital Phone connectivity	37	62	5	-	104
Converter and modem purchases	49	-	-	-	49
Other	5	4	3	1	13
Total	$ 2,047	$ 3,699	$ 4,562	$ 7,164	$ 17,472

(a) TWC has purchase commitments with various programming vendors to provide video services to subscribers. Programming fees represent a significant portion of the cost of revenues. Future fees under such contracts are based on numerous variables, including number and type of customers. The amounts of the commitments reflected above are based on the number of consolidated subscribers at December 31, 2004 applied to the per subscriber contractual rates contained in the contracts that were in effect as of December 31, 2004.

(b) TWC has facility lease commitments under various operating leases, including minimum lease obligations for real estate and operating equipment.

At any time following March 31, 2005, Comcast has the right to require the Company or Time Warner to purchase all or a portion of Comcast's 4.7% limited partnership interest in TWE at an appraised fair market value, subject to a right of first refusal in favor of Time Warner. Additionally, Comcast also has the right, at any time following the second anniversary of the closing of the restructuring of TWE, to sell all or a portion of its interest in TWE to a third party in a bona fide transaction, subject to a right of first refusal, first, in favor of Time Warner and, second, in favor of TWC. If TWC and Time Warner do not collectively elect to purchase all of Comcast's offered partnership interest, Comcast may proceed with the sale of the offered partnership interest to that third party on terms no more favorable than those offered to TWC and Time Warner, if that third party agrees to be bound by the same terms and conditions applicable to Comcast as a limited partner in TWE. The purchase price payable by TWC or Time Warner as consideration for Comcast's partnership interest may be cash, common stock, if the common stock of the purchaser is then publicly traded, or a combination of both.

As previously discussed, Comcast has been granted an option, which generally can be exercised until 60 days following delivery of a termination notice from either TWC or Comcast, to require TWC to redeem a portion of the TWC stock held by Comcast in exchange for a TWC subsidiary holding certain cable systems and approximately $750 million in cash. Under the arrangements entered into by Comcast as part of the process of obtaining FCC approval of Comcast's acquisition of AT&T Broadband, Comcast is obligated to take steps to dispose of its entire interest in TWC and TWE in an orderly process by November 2007, and in any event by May 2008.

As previously discussed, TWC has also agreed to purchase, subject to receipt of applicable regulatory approvals, all of Inner City's interests in the Urban Cable venture for approximately $53 million in cash. In addition, upon closing, TWC will eliminate in consolidation $67 million of debt and interest owed to it by Urban Cable and will assume $53 million of Urban Cable's third-party debt. TWC is continuing to work with the local franchise authority to gain approval of its purchase of Urban Cable and management is currently unable to predict the timing of such approval.

The Company's total rent expense amounted to $105 million, $94 million, and $86 million for the years ended December 31, 2004, 2003 and 2002, respectively.

Contingent Commitments

Prior to the TWE Restructuring, TWE had various contingent commitments, including guarantees, related to the TWE Non-cable Businesses. In connection with the restructuring of TWE, some of these commitments were not transferred with their applicable Non-cable Business and they remain contingent commitments of TWE. Specifically, in connection with the Non-cable Businesses' former investment in the Six Flags theme parks located in Georgia and Texas ("Six Flags Georgia" and "Six Flags Texas," respectively, and collectively, the "Parks"), Historic TW and TWE each agreed to guarantee (the "Six Flags Guarantee") certain obligations relating to the partnerships that hold the Parks (the "Partnerships"). The Six Flags Guarantee principally covers the following obligations (the "Guaranteed Obligations"): (a) the obligation to make a minimum amount of annual distributions to the limited partners of the Partnerships; (b) the obligation to make a minimum amount of capital expenditures each year; (c) the requirement that an annual offer to purchase be made in respect of 5% of the limited partnership units of the Partnerships (plus any such units not purchased in any prior year) based on an aggregate price for all limited partnership units at the higher of (i) $250 million in the case of Six Flags Georgia or $374.8 million in the case of Six Flags Texas and (ii) a multiple of EBITDA and (d) either (i) the purchase of all of the outstanding limited partnership units upon the earlier of the occurrence of certain specified events or the end of the term of each of the Partnerships in 2027 (Six Flags Georgia) and 2028 (Six Flags Texas) (the "End of Term Purchase") or (ii) the obligation to cause each of the Partnerships to have no indebtedness and to meet certain other financial tests as of the end of the term of the Partnership. The aggregate purchase price in respect of all of the limited partnership units for the End of Term Purchase is equal to $250 million in the case of Six Flags Georgia and $374.8 million in the case of Six Flags Texas (in each case, subject to a consumer price index based adjustment calculated annually from 1998 in respect of Six Flags Georgia and 1999 in respect of Six Flags Texas). Such aggregate amount will be reduced in respect of limited partnership units previously purchased.

In connection with the 1998 sale of Six Flags Entertainment Corporation to Premier Parks Inc. ("Premier"), Premier, Historic TW and TWE, among others, entered into a Subordinated Indemnity Agreement pursuant to which Premier agreed to guarantee the performance of the Guaranteed Obligations when due and to indemnify Historic TW and TWE, among others, in the event that the Guaranteed Obligations are not performed and the Six Flags Guarantee is called upon. Premier's obligations to Historic TW and TWE are secured by its interest in all limited partnership units that are purchased by Premier.

Additionally, Time Warner and its subsidiary, Warner Communications Inc., have agreed, on a joint and several basis, to indemnify TWE from and against any and all of these contingent liabilities, but TWE remains a party to these commitments. In the event that TWE is required to make a payment related to any contingent liabilities of the TWE Non-cable Businesses, TWE will recognize an expense from discontinued operations and will receive a capital contribution from Time Warner and/or its subsidiary Warner Communications Inc. for reimbursement of the incurred expenses. Additionally, costs related to any acquisition and subsequent distribution to Time Warner would also be treated as an expense of discontinued operations to be reimbursed by Time Warner.

To date, no payments have been made by Historic TW or TWE pursuant to the Six Flags Guarantee.

TWC presently has cable franchise agreements containing provisions requiring the construction of cable plant and the provision of services to customers within the franchise areas. In connection with these obligations under existing franchise agreements, TWC obtains surety bonds or letters of credit guaranteeing performance to municipalities and public utilities and payment of insurance premiums. The Company has also obtained letters of credit for several of its joint ventures. Should these joint ventures default on their obligations supported by the letters of credit, TWC would be obligated to pay these costs to the extent of the letters of credit. Such surety bonds and letters of credit as of December 31, 2004 amounted to $135 million. Payments under these arrangements are required only in the event of nonperformance. TWC does not expect that these contingent commitments will result in any amounts being paid in the foreseeable future.

	Contingent Commitments				
	2005	2006 - 2007	2008 - 2009	2010 and thereafter	Total
			(in millions)		
Letters of credit and surety bonds	$ -	$ -	$ -	$ 135	$ 135

TWC has submitted a joint bid, along with Comcast, to acquire the assets of Adelphia Communications Corporation ("Adelphia") in connection with the auction process initiated by Adelphia. It is unknown at this time whether its bid will be successful and, if so, on what terms.

TWE is required, at least quarterly, to make tax distributions to its partners in proportion to their residual interests in an aggregate amount generally equivalent to a percentage of TWE's taxable income. TWC is required to make cash distributions to Time Warner when employees of the Company exercise previously issued Time Warner stock options. For more information, please see "Management's Discussion and Analysis of Results of Operations and Financial Condition—Market Risk Management—Interest Rate Risk—Equity Risk."

Although not required to do so, TWC has provided funding to Urban Cable Works, a joint venture owned 40.0% by TWC and 60.0% by third parties, to enable Urban Cable Works to comply with the covenants in its senior credit agreement in the amount of $37 million in 2003 and $3 million in 2002. TWC provided no funding in 2004 or through the issuance date of this report.

MARKET RISK MANAGEMENT

Market risk is the potential loss arising from adverse changes in market rates and prices, such as interest rates and changes in the market value of investments.

Interest Rate Risk

Variable rate debt. As of December 31, 2004, TWC had an outstanding balance of variable-rate debt of $1.523 billion. Based on the variable rate obligations outstanding at December 31, 2004, each 25 basis point increase or decrease in the level of interest rates would, respectively, increase or decrease TWC's annual interest expense and related cash payments by approximately $4 million. These potential increases or decreases are based on simplifying assumptions, including a constant level of variable rate debt for all maturities and an immediate, across-the-board increase or decrease in the level of interest rates with no other subsequent changes for the remainder of the period.

Fixed rate debt. As of December 31, 2004, TWC had an outstanding balance of $5.767 billion of fixed-rate debt and mandatorily redeemable preferred equity, including an unamortized fair value adjustment of $167 million. Based on the fixed-rate debt obligations outstanding at December 31, 2004, a 25 basis point increase or decrease in the level of interest rates would, respectively, decrease or increase the fair value of the fixed-rate debt by approximately $164 million. These potential increases or decreases are based on simplifying assumptions, including a constant level and rate of fixed rate debt and an immediate, across-the-board increase or decrease in the level of interest rates with no other subsequent changes for the remainder of the period.

Equity Risk

TWC is also exposed to market risk as it relates to changes in the market value of its investments. TWC invests in equity instruments of private companies for operational and strategic business purposes. These investments are subject to significant fluctuations in fair market value due to volatility of the industries in which the companies operate. As of December 31, 2004, TWC had $1.964 billion of investments primarily consisting of Texas and Kansas City Cable Partners, L.P. and Urban Cable Works, which are accounted for using the equity method of accounting.

Some of TWC's employees were previously issued options to purchase shares of Time Warner Common Stock in connection with their past employment with subsidiaries and affiliates of Time Warner. TWC has agreed that, upon the exercise by any of its officers or employees of any options to purchase Time Warner Common Stock, TWC will reimburse Time Warner in an amount equal to the excess of the closing price of a share of Time Warner Common Stock on the date of the exercise of the option over the aggregate exercise price paid by the exercising officer or employee for each share of Time Warner Common Stock. At December 31, 2004, TWC had accrued approximately $57 million of stock option distributions payable to Time Warner. That amount, which is not payable until the underlying options are exercised and then only subject to limitations on cash distributions in accordance with the senior unsecured revolving credit facilities, will be adjusted in subsequent accounting periods based on changes in the quoted market prices for Time Warner's Common Stock. See Note 10 to the consolidated financial statements.

Inflation

Although the fees paid under some programming agreements with programming vendors are adjusted based on the consumer price index, the Company does not believe that its operations are materially affected by inflation.

Seasonality

TWC's business is subject to some seasonal trends in subscriber counts. Basic subscriber count tends to decline in the summer and return to normal levels in the fall. This seasonality is largely due to college students and other individuals who disconnect their cable service in the summer months and reconnect in the fall.

ACCOUNTING POLICIES

New Accounting Standards Affecting Comparability of Results of Operations

Goodwill and Other Intangible Assets

During 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 142 "*Goodwill and Other Intangible Assets*," ("FAS 142") which requires that, effective January 1, 2002, goodwill, including the goodwill included in the carrying value of investments accounted for using the equity method of accounting, and certain other intangible assets deemed to have an indefinite useful life, cease to be amortized. FAS 142 also requires that goodwill and certain other intangible assets be assessed for impairment using fair value measurement techniques. During the first quarter of 2002, upon adoption of FAS 142, TWC completed its impairment review and recorded a $27.971 billion non-cash impairment charge as a cumulative effect of an accounting change (including $4.996 billion related to its discontinued operations). As part of the annual impairment review during the fourth quarter of 2002, the Company recorded an additional non-cash impairment charge of $10.550 billion, which is classified as a component of operating income. In accordance with Topic D-108, the Company utilized a traditional discounted cash flow methodology to value intangibles for its December 2004 impairment test. The 2003 and 2004 impairment reviews resulted in no impairment.

Critical Accounting Policies

The SEC considers an accounting policy to be critical if it is important to the Company's financial condition or results of operations, and if it requires significant judgment and estimates on the part of management in its application. The following represents TWC's critical accounting policies, as determined by the management of TWC. For a summary of all of the Company's significant accounting policies, including the critical accounting policies discussed below, please see Note 3 to the consolidated financial statements.

Purchase Accounting

On January 11, 2001, America Online acquired Historic TW Inc. (formerly named Time Warner Inc.) (the "America Online-Historic TW Merger or the "Merger"), whose businesses included TWC. The America Online-Historic TW merger was accounted for as a purchase business combination. Under the purchase method of accounting, the cost of approximately $147 billion to acquire Historic TW, including transaction costs, was allocated to its underlying net assets, including its interests in TWC, 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 America Online-Historic TW Merger was consummated, the purchase price to acquire Historic TW was based upon the fair value of the resulting entity, Time Warner's shares issued in the Merger on the Merger's announcement date. Due to 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 Time Warner shares on the Merger's completion date. Of the $147 billion in Time Warner acquisition costs, approximately $61.462 billion, primarily associated with goodwill and cable franchises, was allocated to the underlying net assets of TWC's continuing operations.

In connection with the TWE Restructuring, purchase accounting adjustments associated with Time Warner's increase in its economic ownership interest in the cable systems owned by TWE from 72.4% to 78.4% were allocated to TWC. This allocation resulted in an increase in the value of TWC's cable franchises, subscriber lists and goodwill of $5.165 billion.

Determining the fair value of various assets and liabilities acquired is subjective in nature and often involves the use of significant estimates and assumptions. 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. Consequently, to the extent a longer-lived asset is ascribed greater value under the purchase method than a shorter-lived asset, there may be less amortization recorded in a given period. As permitted by generally accepted accounting principles, TWC used the one-year period following the consummation of the America Online-Historic TW Merger to finalize estimates of the fair value of assets and liabilities acquired. One of the areas that requires judgment in determining fair values and useful lives is intangible assets. To assist in this process, TWC obtained appraisals from independent valuation firms for various intangible assets. While there are a number of different methods used in estimating the value of the intangibles acquired, the Company primarily relied upon discounted cash flow methodologies, market comparisons and a review of recent transactions. Some of the more significant estimates and assumptions inherent in these approaches include:

- projected future cash flows, including timing;
- discount rate reflecting the risk inherent in the future cash flows;
- perpetual growth rate; and
- the determination of whether a premium or a discount should be applied to comparables.

Most of these assumptions were made based on available historical information.

The value of the Company's intangible assets is exposed to future adverse changes if the Company experiences declines in operating results or experiences significant negative industry or economic trends or if future performance is below historical trends. TWC periodically reviews intangible assets for impairment using the guidance of applicable accounting literature.

In the first quarter of 2002, TWC adopted new rules (i.e., FAS 142) for measuring the impairment of goodwill and other intangible assets. The estimates and assumptions described above, as well as the determination as to how goodwill would be allocated to TWC, impacted the amount of impairment to be recognized upon adoption of the new accounting standard.

Goodwill and Other Intangible Assets

FAS 142 requires that goodwill and other intangible assets be assessed for impairment using fair value measurement techniques. Specifically, goodwill impairment is determined using a two-step process. The first step is used to identify potential impairment by comparing the fair value of TWC's business with its net book value, or "carrying amount," including goodwill. If the fair value exceeds the carrying amount, goodwill is considered not impaired, and the second step of the impairment test is unnecessary. If the carrying amount exceeds its fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any. This second step compares the implied fair value of goodwill with the carrying amount of that goodwill. If the carrying amount of 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 is allocated to all assets and liabilities, including any unrecognized intangible assets, as if TWC had been acquired in a business combination and the fair value was the purchase price paid to acquire TWC. 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 TWC's fair value under the first step of the goodwill impairment test and determining the fair value of individual assets and liabilities, including unrecognized intangible assets, under the second step of the goodwill impairment test are subjective in nature and often involve 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 Company obtained appraisals from independent valuation firms. In addition to the use of independent valuation firms, TWC performed internal valuation analyses and considered other market information that is publicly available. Estimates of fair value are primarily determined using discounted cash flow methodologies, market comparisons and a review of 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.

Upon the adoption of FAS 142 on January 1, 2002, $8.808 billion of goodwill was reallocated from TWC's continuing operations to other business segments of Time Warner. Additionally, TWC recorded a

$27.971 billion non-cash pretax impairment charge as a cumulative effect of an accounting change, $22.975 billion of which related to TWC's continuing operations. As part of the annual impairment review during the fourth quarter of 2002, TWC recorded an additional non-cash impairment charge of $10.550 billion as a component of operating income. The Company's annual impairment analysis did not result in an impairment charge for 2004 or 2003. In order to evaluate the sensitivity of the fair value calculations on the impairment calculation in 2004, the Company applied a hypothetical 10% decrease to the fair values. This hypothetical decrease would not result in the impairment of goodwill. However, a hypothetical 10% decrease to the fair values of the cable franchise indefinite-lived intangible assets would result in an impairment of approximately $412 million.

Investments

TWC's investments are primarily accounted for using the equity method of accounting. A subjective 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. This evaluation is dependent on the specific facts and circumstances. For investments accounted for using the cost or equity method of accounting, TWC evaluates information including budgets, business plans and financial statements 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 the Company's management weighs all quantitative and qualitative factors in determining if an other-than-temporary decline in value of an investment has occurred.

Accounting for Pension Plans

TWC has defined benefit pension plans covering a majority of its employees. Pension benefits are based on formulas that reflect the employees' years of service and compensation during their employment period and participation in the plans. TWC recognized pension expense associated with continuing operations of $64 million in 2004, $63 million in 2003 and $27 million in 2002. The pension expense recognized by the Company is determined using certain assumptions, including the discount rate, the expected long-term rate of return on plan assets and the rate of compensation increases. The determination of assumptions for pension plans is discussed in more detail below.

The Company used a discount rate of 6.25% to compute 2004 pension expense. The discount rate was determined by reference to the Moody's Aa Corporate Bond Index, adjusted for coupon frequency and duration of obligation. A decrease in the discount rate of 25 basis points, from 6.25% to 6.00%, while holding all other assumptions constant, would have resulted in an increase in the Company's pension expense of approximately $7 million in 2004.

The Company's expected long-term rate of return on plan assets used to compute 2004 pension expense was 8%. In developing the expected long-term rate of return, the Company considered the pension portfolio's past average rate of earnings, portfolio composition and discussions with portfolio managers. The expected long-term rate of return is based on an asset allocation assumption of 75% equities and 25% fixed-income securities, which approximated the actual allocation as of December 31, 2004. A decrease in the expected long-term rate of return of 25 basis points, from 8.00% to 7.75%, while holding all other assumptions constant, would have resulted in an increase in the Company's pension expense of approximately $1 million in 2004.

The Company used an estimated rate of future compensation increases of 4.5% to compute 2004 pension expense. An increase in the rate of 25 basis points while holding all other assumptions constant would have resulted in an increase in the Company's pension expense of approximately $2 million in 2004.

Based upon current assumptions, the Company anticipates that pension expense in 2005 will decrease by approximately $5 million, compared to 2004. This anticipated decrease is due primarily to favorable investment performance in 2004 and contributions of $150 million that were made to pension plan assets during 2004. The assumptions underlying the anticipated decrease in pension expense are subject to adjustment, which could impact the Company's ultimate pension expense.

In 2005, TWC does not expect to make contributions to pension plan assets.

Multiple-Element Arrangements

In the normal course of business, TWC enters into multiple-element transactions where the Company is simultaneously both a customer and a vendor with the same counter-party. For example, when negotiating the terms of programming purchase contracts from cable networks, TWC may at the same time simultaneously negotiate for the sale of advertising to the same cable network. These arrangements may be documented in one contract or may be documented in separate contracts. Whether it is in one contract or multiple contracts, these arrangements are considered to have been negotiated simultaneously for accounting purposes. In accounting for these types of arrangements, TWC recognizes revenue and expense in accordance with the following authoritative literature:

- APB Opinion No. 29, "*Accounting for Nonmonetary Transactions*";
- EITF 01-09, "*Accounting for Consideration Given by a Vendor to a Customer*";
- EITF 00-21, "*Revenue Arrangements with Multiple Deliverables*"; and
- Securities and Exchange Commission Staff Accounting Bulletin No. 104: *"Revenue Recognition"*.

Additionally, in November 2002, the EITF reached a consensus on EITF 02-16, "*Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor.*" The guidance in EITF 02-16 is consistent with the Company's historical accounting. Specifically, EITF 02-16 presumes that cash consideration received from a vendor, such as a cable network programmer, is a reduction of the price to use the vendor's products or services and therefore a reduction in cable programming cost. However, this presumption is overcome when the cash consideration represents a payment for assets or services, such as advertising, delivered to the vendor. In this case the cash consideration should be characterized as revenue when recognized in a customer's income statement. EITF 02-16 states that cash consideration paid by a vendor that exceeds the estimated fair value of the benefits, such as advertising received by the vendor, should be characterized in the customer's income statement as a reduction of cost of revenues or programming expense.

With respect to programming and vendor advertising arrangements being negotiated simultaneously with the same cable network, TWC assessed whether each piece of the arrangements was at fair value. The factors that were considered in determining the individual fair values of the programming and advertising varied from arrangement to arrangement and included:

- existence of a "most-favored-nation" clause or comparable assurances as to fair market value with respect to programming;
- comparison to fees under a prior contract;
- comparison to fees paid for similar networks; and
- comparison to advertising rates paid by other advertisers on the Company's systems.

Gross Versus Net Revenue Recognition

In the normal course of business, TWC acts as an intermediary or agent with respect to payments received from third parties. For example, TWC collects taxes on behalf of franchising authorities. The accounting issue encountered in these arrangements is whether TWC should report revenue based on the "gross" amount billed to the ultimate customer or on the "net" amount received from the customer after payments to franchise authorities. The Company has determined that these amounts should be reported on a "gross" basis.

Determining whether revenue should be reported gross or net is based on an assessment of whether TWC is acting as the "principal" in a transaction or acting as an "agent" in the transaction. To the extent that the Company acts as a principal in a transaction, TWC reports as revenue the payments received on a gross basis. To the extent TWC acts as an agent in a transaction, the Company reports as revenue the payments received less commissions and other payments to third parties on a net basis. The determination of whether TWC serves as principal or agent in a transaction is subjective in nature and based on an evaluation of the terms of each arrangement.

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

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

Conversely, under EITF 99-19, TWC serves as the agent in arrangements where TWC does not have substantial risks and rewards of ownership. Indicators that the suppliers, and not TWC, have substantial risks and rewards of ownership are as follows:

- the supplier is responsible for providing the product or service to the customer;
- the supplier has latitude in establishing prices;
- the amount that TWC earns is fixed; and
- the supplier has credit risk.

Property, Plant and Equipment

TWC incurs expenditures associated with the construction and maintenance of its cable systems. Costs associated with the construction of the cable transmission and distribution facilities and new cable service installations are capitalized. TWC generally capitalizes expenditures for tangible fixed assets having a useful life of greater than one year. Capitalized costs include direct material, direct labor, overhead and, in some cases, interest. Sales and marketing costs, as well as the costs of repairing or maintaining existing fixed assets, are expensed as incurred. Types of capitalized expenditures include: customer premise equipment, scalable infrastructure, line extensions, plant upgrades and rebuilds and support capital. With respect to customer premise equipment, which includes converters and cable modems, TWC capitalizes direct installation charges only upon the initial deployment of these assets. All costs incurred in subsequent disconnects and reconnects are expensed as incurred. Depreciation on these assets is provided generally using the straight-line method over their estimated useful lives. For converters and modems, useful life is generally 3 to 5 years and for plant upgrades, useful life is up to 16 years.

RISK FACTORS AND CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

Risk Factors

If the events discussed in these risk factors occur, the Company's business, financial condition, results of operations or cash flows could be materially adversely affected.

The Company has begun providing voice services over its cable systems and faces risks inherent to entering into a new line of business, from competition, and from regulatory actions or requirements. TWC's Digital Phone service was launched in all of its operating divisions at December 31, 2004.

Coordinating the introduction of a product with which it has only limited operating experience may present significant challenges. First, although the Company has launched the service in all of its divisions, it remains a relatively new technology. Furthermore, the Digital Phone service depends upon interconnection and related services provided by certain third parties. The Company may encounter unforeseen difficulties as it introduces the product in new operating areas or increases the scale of its offering in areas in which it has launched. Second, the Company may face heightened customer expectations and regulatory requirements for the reliability of voice services as compared with video and high-speed data services. The Company will need to undertake significant training of customer service representatives and technicians. If the service is not sufficiently reliable or the Company otherwise fails to meet customer expectations or regulatory requirements, the Digital Phone business could be impacted adversely. Third, the competitive landscape for voice services is expected to be intense, with the Company facing competition from other providers of VoIP services, as well as regional incumbent telephone companies, cellular telephone service providers, and others, including established long distance companies. The regional incumbent telephone companies have substantial capital and other resources, as well as longstanding customer relationships. Some of these companies have entered into co-marketing arrangements with direct-to-home satellite service providers to offer video services (and, in the future, will likely offer video services on their own) together with their telephone and DSL offerings. Such bundled offerings by telephone companies may compete with the Company's offerings and could adversely impact the Company. Finally, the Company expects advances in communications technology, as well as changes in the marketplace and the regulatory and legislative environment. Consequently, the Company is unable to predict the effect that ongoing or future developments in these areas might have on voice operations.

Voice operations may also present additional regulatory risks. It is unclear whether and to what extent traditional state and federal telephone regulations will apply to telephony services provided using VoIP technology. In addition, regulators could allow utility pole owners to charge cable operators offering voice services higher rates for pole rental than is allowed for cable and high-speed services. The FCC recently initiated a rulemaking proceeding examining the proper regulatory approach to voice services utilizing VoIP technology. Congress is considering enacting new laws to govern those services. Additionally, there are court cases addressing the proper regulatory treatment for the service, and there are rulemakings and various other proceedings underway at the state level. In view of these various activities at the state and federal level, the Company cannot be certain what impact regulation will have on Digital Phone operations.

Technological developments may adversely affect the Company's competitive position and limit its ability to protect its valuable intellectual property rights. TWC's business may be adversely affected by: more aggressive than expected competition from alternate technologies, such as satellite, DSL, traditional phone, and wireless and power line services; by the failure to choose technologies appropriately; by the failure of new equipment, such as digital set-top boxes or digital video recorders; or by the failure of services, such as digital cable, high-speed data services, Digital Phone 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.

Caution Concerning Forward-Looking Statements

This document contains "forward-looking statements," particularly statements anticipating future growth in revenues, Operating Income before Depreciation and Amortization 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. Those 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 Company is under no obligation to, and expressly disclaims any obligation to, update or alter its forward-looking statements whether as a result of such changes, new information, subsequent events or otherwise.

The Company operates in a highly competitive and rapidly changing business that is customer and technology-driven. The Company's business is affected by: government regulation; economic, strategic, political and social conditions; customer responses to new and existing products and services; and technological developments. The Company's 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 Company in the future and could also cause actual results to differ materially from those contained in the forward-looking statements, including the following:

- more aggressive than expected competition, including price competition, from other distributors of video programming, including direct to home satellite distributors, regional incumbent telephone companies and from competitors using new technologies;

- more aggressive than expected competition, including price competition, from other distributors of high-speed data services, including DSL, satellite and terrestrial wireless distributors, power companies and from competitors using new technologies;

- more aggressive than expected competition, including price competition, from other distributors of voice services, including regional telephone companies, long distance providers, national VoIP providers, wireless distributors and from competitors using new technologies;

- greater than expected increases in programming or other costs, including costs of new products and services, or difficulty in passing such costs to subscribers;

- increases in government regulation of video services, including regulation that limits cable operators' ability to raise rates, that requires that particular programming be carried or offered in a particular manner (for instance, "a la carte"), or that dictates set-top box or other equipment features, functionalities or specifications;

- government regulation of other services, such as high-speed data and voice services, including regulation that results in the imposition of higher pole fees for such services;

- government regulation that dictates the manner in which it operates its cable systems or determines what to offer, such as the imposition of "forced access" rules or common carrier requirements;

- increased difficulty in obtaining franchise renewals;

- the failure of new equipment, such as digital set-top boxes or digital video recorders, or services, such as digital video service, high-speed data service, voice service or video-on-demand, to appeal to enough subscribers or to be available at prices subscribers are willing to pay, to function as expected and to be delivered in a timely fashion;

- fluctuations in spending levels by advertisers and consumers;

- changes in technology and failure to anticipate technological developments or to choose technologies appropriately;

- unanticipated funding obligations relating to its cable joint ventures;

- lower than expected valuations associated with cash flows and revenue, which may result in an inability to realize the value of recorded intangibles; and

- the Company's overall financial strategy, including growth in operations, maintaining its financial ratios and a strong balance sheet, which could be adversely affected by decreased liquidity in the capital markets, including any reduction in its ability to access either the capital markets for debt securities or bank financing, increased interest rates, failure to meet earnings expectations, significant acquisitions or other transactions, economic slowdowns and changes in the Company's plans, strategies and intentions.