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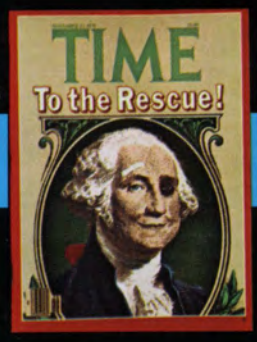
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TIME INCORPORATED
A diversified company in the communications and forest products fields.

The diagram on these pages graphically depicts the diversification of Time Inc. from its founding in 1923 through 1978. Operations of the 28 divisions and subsidiaries represented at right are reviewed in this Annual Report to Shareholders.

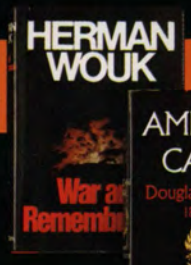
Magazines

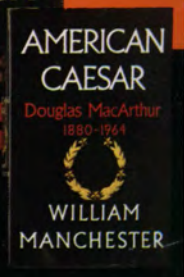




Books





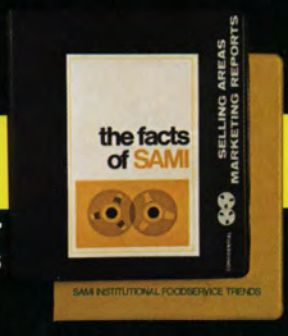


Video





Other Activities





Forest Products



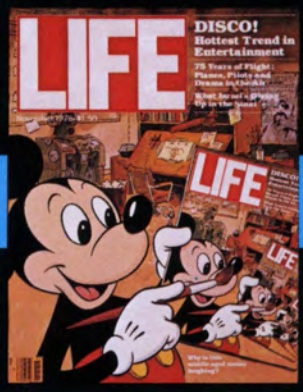


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Sports Illustrated
PENN STATE ROLLS ON


Money
SCRAPING BY ON $69,000 A YEAR


People
The 2 faces of JACKIE O


LIFE
DISCO!
Hottest Trend in Entertainment
LIFE


The Current Book-of-the-Month


GIANTS OF JAZZ
Louis Armstrong




TIME-LIFE MULTIMEDIA
THE ASCENT OF MAN


HBO


8
WOTV



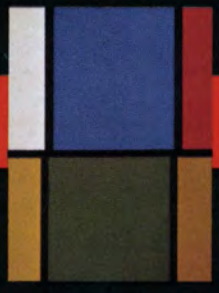

Highland Park News

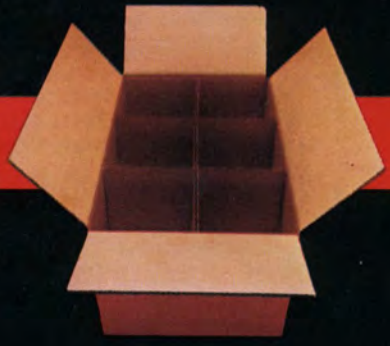

TIME & LIFE BUILDING




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Aim


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Financial Highlights

(In thousands of dollars except for per share data)

	1978	1977
Revenues	$1,697,585	$1,249,816
Income Before Extraordinary Item	119,021	90,539
Net Income	125,742	90,539
Earnings Per Share—Fully Diluted		
Income Before Extraordinary Item	$5.31	$4.37
Net Income	5.61	4.37
Dividends	1.45	1.2625
Working Capital	$ 270,944	$ 333,009
Purchase of Property and Equipment	111,878	49,543
Depreciation, Amortization and Depletion	41,621	34,185
Unearned Portion of Paid Subscriptions	134,388	114,870
Long-Term Debt	271,295	127,689
Shareholders' Equity	925,180	551,420
Common Shareholders' Equity—Per Share	$31.00	$25.41
Average Shares Outstanding (000)		
Primary	21,490	20,371
Fully Diluted	22,397	20,696

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LETTER TO SHAREHOLDERS

For Time Inc. 1978 was an excellent year. Revenues reached $1.7 billion, a 36 percent increase over 1977. Income (before an extraordinary gain of $6.7 million) was a record $119 million, which was 31 percent ahead of 1977. Fully diluted earnings per share before the extraordinary gain were $5.31, as compared with 1977's $4.37 per share.

By far the largest part of the Company's growth last year came from businesses we owned and operated before 1978, but two major acquisitions made during the year should contribute importantly to the Company's future growth in revenues and earnings.

In November 1978, Time Inc. acquired Inland Container Corporation, one of the country's largest producers of corrugated containers. Inland ranked 458th on Fortune's list of the 500 largest U.S. industrial companies. In November, Time Inc. also closed the purchase of American Television and Communications Corporation, the country's second-largest cable television company. Time Inc. has had an important stake in ATC since 1973, when we sold our cable television properties (except for Manhattan Cable Television) to ATC for stock. Earlier in 1978 Time Inc. bought the 126-year old Washington *Star.*

PLANNED DIVERSIFICATION

Over the past five years the management of Time Inc. has carried out a program of planned growth and diversification in its principal lines of business. In meetings with stockholders, security analysts, and the financial press, management has consistently talked about its intention to expand Time Inc.'s communications and forest products lines both by the internal development of new products and services and by acquisition.

Our stated aim is not growth just for growth's sake, but to move into businesses that we have competence to manage. We want to diversify our activities in magazines, books, forest products, and the video field in order to reduce the volatility of the Company's earnings. Within broad industry classifications such as communications and forest products, different activities are stimulated or depressed at different periods of the business cycle. In the past, Time Inc.'s earnings have tended to be very dependent upon the level of magazine advertising spending, which historically has been cut back during recessionary periods. It is interesting to note that the Company's growth and diversification plan was far enough along by 1975 to hold the earnings decline in that year to 10 percent in the face of the sharpest U.S. recession since World War II.

We think it may help stockholders to understand the company as it is structured today if we review what Time Inc.'s management has done in the past five years to carry out its stated intention to grow and diversify in the communications and forest products industries.

MAGAZINE STRATEGY

In 1974, the Magazine Group created and introduced People magazine, which became profitable after only 18 months of publication, a unique accomplishment in the weekly magazine field. People today is an acknowledged winner, with millions of readers and many categories of advertisers. In October 1978, Time Inc. resumed the publication of Life on a different economic basis. As a monthly selling at $1.50 per copy, Life relies more on single copy sales than it did as a weekly. The reception given the reborn Life by readers, advertisers, and the press has been highly enthusiastic.

In magazine publishing it is generally thought to be more difficult to change a magazine than to invent a new one. But the staff of Fortune changed that magazine from an indispensable monthly to a successful fortnightly in 1978. Both readers and advertisers welcomed the change, as shown by a rise in Fortune's circulation and a 43 percent increase in advertising revenues in its first year as a biweekly.*

Perhaps as important as the invention of People and the reshaping of Life and Fortune were the subscription pricing decisions made necessary in the early Seventies by rapidly escalating postal costs and severe inflationary pressures on production costs. It was obvious that there would have to be substantial in-

*Publishers Information Bureau figures are used throughout this report for domestic advertising revenues of individual magazines.

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creases in subscription prices if readers were to pay their fair share.

Five years ago we were getting about 70 percent of our magazine revenues from advertisers and only 30 percent from subscribers. That ratio is now approximately 60/40.

Despite the start-up cost of resuming publication of Life and the expense of restructuring Fortune, the Magazine Group had record revenues and profits in 1978, both up approximately 24 percent over the previous year's record levels.

BOOKS GROWTH

In recent years the Books Group has been one of Time Inc.'s fastest growing areas of activity. Much of Books' growth has derived from the publication of book series of high quality that sell well both in the U.S. and in foreign markets. Foreign sales in 1978 accounted for 48 percent of our T-L Books revenues, a record high. In late 1977, again in furtherance of our structured diversification plan, we acquired the Book-of-the-Month Club, the nation's best known book club. BOMC has had a long-standing tradition of quality that makes it a good "fit" for our Books Group, which already included the publishing firm of Little, Brown and Company, New York Graphic Society, and interests in several foreign publishing houses.

INLAND JOINS FOREST PRODUCTS

For Time Inc.'s Forest Products operations the past five years have been years of substantial growth and diversification. Our experience in this area provides an excellent example of why it makes sense to have a variety of operations within a single industry, particularly during difficult times. In 1974 and 1975, while the Temple Division of Temple-Eastex Inc. was suffering along with all other building products companies from the severest cutback in housing starts since World War II, the pulp and paperboard operations of the Eastex Division were producing record earnings. In 1977 and 1978, when we were encountering paper production problems related to the expansion of our facilities at Eastex, the Temple Division bounced back and produced record earnings.

During the entire period we have been improving and adding to these forest products manufacturing facilities to assure that we will have the best opportunity of capitalizing on the earnings potential of our 1.1 million acres of timberland in Texas.

Capping our activity in forest products was the acquisition in late 1978 of Inland Container Corporation, which gives Time Inc. an entry into yet another important part of the forest products industry—containerboard and corrugated containers. Inland is a well-managed, low-cost producer and 50 percent owner of Georgia Kraft Company, whose assets include some of the world's most efficient linerboard mills and 925,000 acres of timberland in Alabama and Georgia.

VIDEO DOUBLES SIZE

The Video Group is currently the fastest growing segment of our Company. In late 1972, Time Inc.'s Home Box Office subsidiary launched this country's first pay television programming network. HBO now serves more than two million subscribers in 745 cable systems in every state, making it by far the largest and most successful company in the pay-TV industry. Moreover, HBO is in the entertainment field and may one day demonstrate another benefit of diversification, which is that entertainment businesses traditionally fare well during recessionary periods.

In the Video Group the operations of Time-Life Films were strengthened in 1977 by the acquisition of David Susskind's Talent Associates. Formerly Time-Life Films was mostly engaged in the U.S. and Latin-American distribution of BBC productions, some of which it co-produced. That association will continue but increasingly American viewers will see a wide variety of programming carrying the credit: A Time-Life Television Production.

In late 1978, the Video Group approximately doubled in size when Time Inc. acquired American Television and Communications Corporation, a large and very profitable cable system operating company which was serving about 790,000 subscribers. Time Inc.'s cable operation, Manhattan Cable Television, now serves over 100,000 subscribers, and the two companies together

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make Time Inc. a strong force in the cable television field.

"OTHER ACTIVITIES" ADDS STAR

The Time Inc. businesses grouped under "Other Activities" include the very successful marketing data company, SAMI; Pioneer Press, a chain of weekly newspapers in the Chicago suburbs; and Printing Developments, Inc., a producer of scanning equipment used in the printing trade. The Washington *Star,* the capital's oldest newspaper, was added to this group in 1978. Time Inc. is committed to investing $60 million in five years to turn this financially troubled operation around and make the *Star* once again one of this country's most important daily newspapers.

OUTLOOK

We are happy to report that, in our opinion, the Company has never been in a better position to face the future. The economic state of the U.S. troubles us all, and the world business climate is harsh and uncertain. But Time Inc. has first-class employees, a strong asset base, and a wide variety of quality products and services. These latter factors give us confidence in our Company's performance in the coming years.

Two of Time Inc.'s senior directors are retiring this year, and it seems appropriate to conclude this report with a few words about their service to the company.

Roy Larsen joined Time Inc. in 1922, the year it was founded. He served initially as circulation manager. Over the ensuing years he helped launch Fortune and the *March of Time,* and was Life's first publisher. From 1939 to 1960, he was president of Time Inc., and for the past decade has been vice chairman of the board of directors. With 57 years at Time Inc., he is by far the Company's longest-term employee.

Hedley Donovan, a Phi Beta Kappa Rhodes Scholar from the University of Minnesota, joined Fortune as a writer in 1945, after Navy service. He became managing editor of Fortune in 1953 and editorial director of Time Inc. in 1959. In 1964 he succeeded Henry R. Luce as editor-in-chief of all Time Inc. publications and has held that position for the past 15 years.

As busy men often do, both Donovan and Larsen found time to serve many civic and educational institutions. In retirement they will undoubtedly continue to do so. We wish them both well, but want them and our shareholders to know that their counsel—and presence—will be missed.



Andrew Heiskell

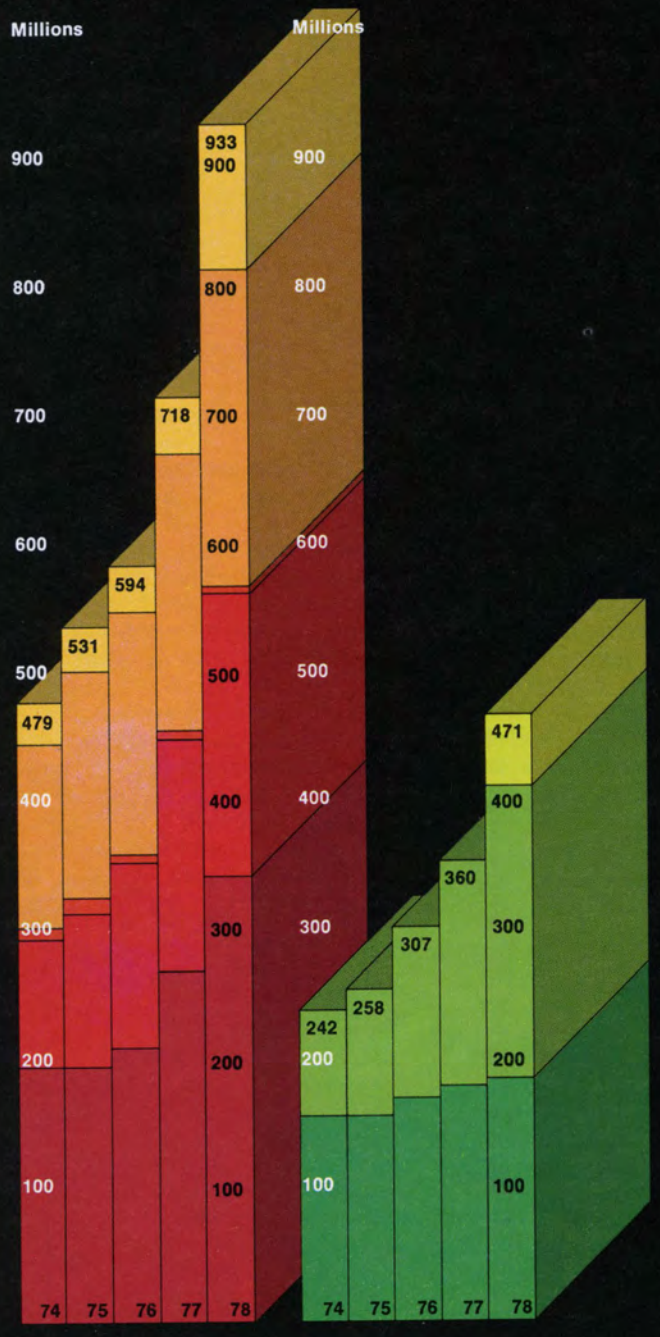
Andrew Heiskell
Chairman of the Board and
Chief Executive Officer

James R. Shepley

James R. Shepley
President and
Chief Operating Officer

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TIME INCORPORATED
1974-1978



Publishing Revenues

- Other Book Publishing*
- Time Life Books
- Magazine Other
- Magazine Circulation
- Magazine Advertising

*Includes Book-of-the Month Club from December 1977 and Little, Brown Revenues

Forest Products Revenues

- Container and Containerboard*
- Building Materials
- Pulp and Paperboard

*Includes Inland Container Revenue from November 14, 1978



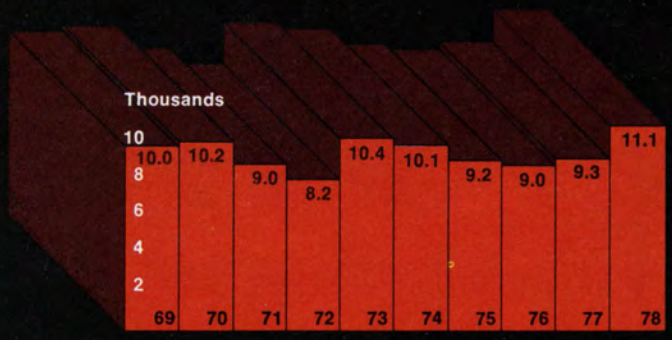
Revenues By Lines of Business

- Other
- Forest Products
- Publishing
- Video

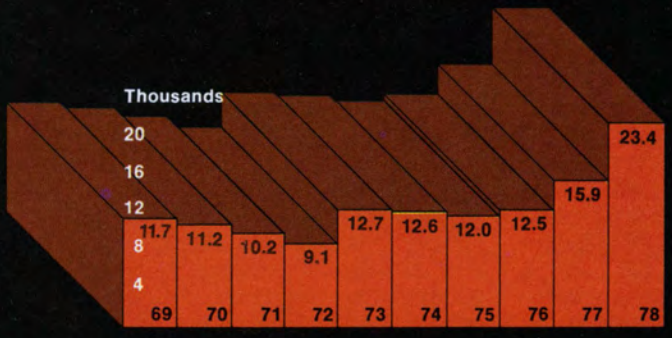


Operating Profit By Lines of Business

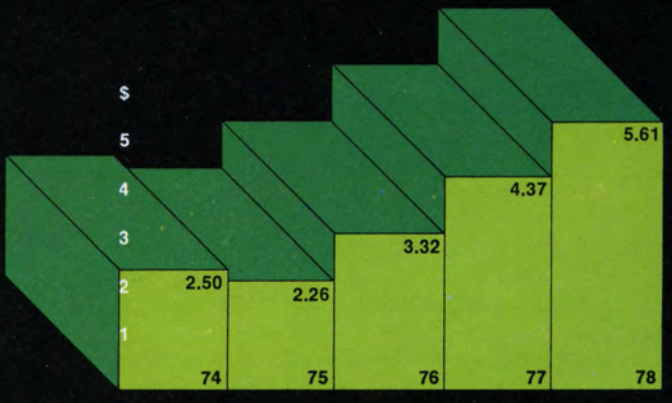
- Other
- Forest Products
- Publishing
- Video



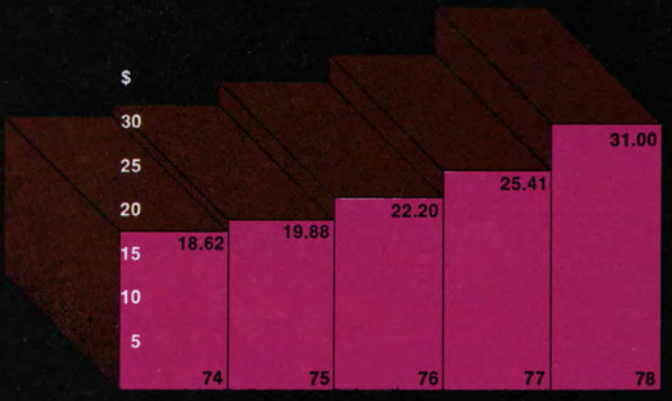
Number of
Common Shareholders



Number of
Employees

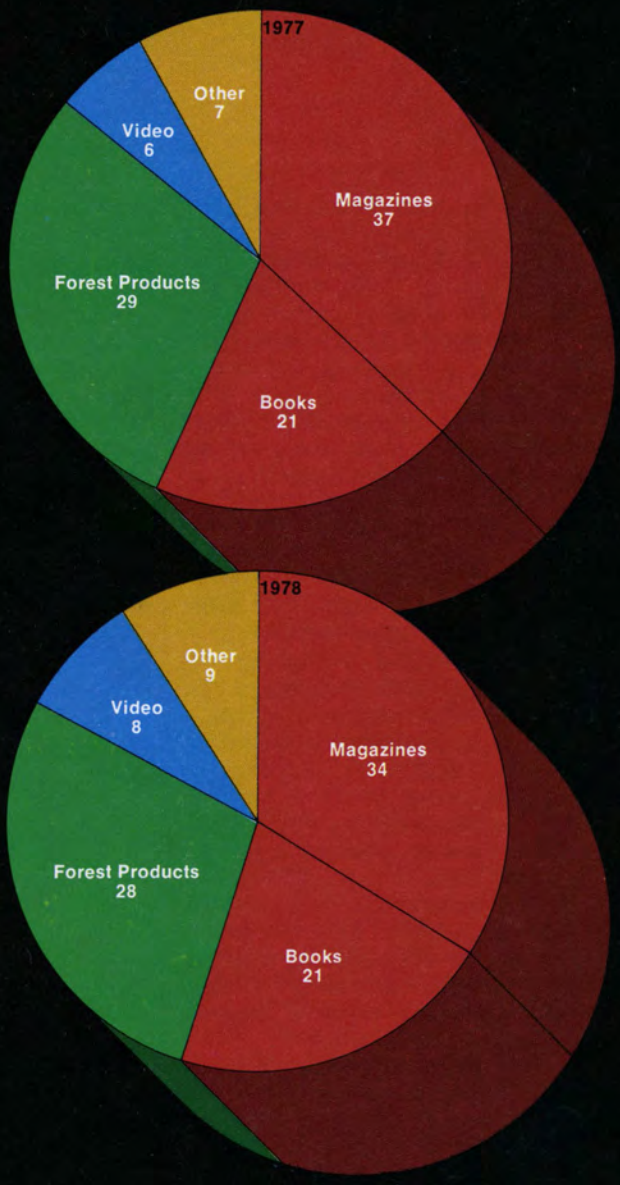


Net Income
Per Share—Fully Diluted



Equity
Per Common Share

Total Revenues
(percent)



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MAGAZINES

Revenues — $572 million
Pretax Profits — $ 66 million

Magazines are still Time Inc.'s best known product line. In 1978, despite the costs of resuming the publication of Life and changing Fortune to a biweekly, the Magazine Group increased its operating profits to a record $66 million, up 24 percent from the previous year. Revenues were also at an all-time high of $572 million, up 24 percent from 1977.

TIME

For the ninth consecutive year, Time led all magazines in worldwide advertising revenues. In 1978 Time also displaced TV Guide as the number one magazine in advertising revenues in the U.S. Time's U.S. advertising revenues were $199 million in 1978, up 20 percent from 1977, while its worldwide ad revenues reached $260 million. The demographic editions, pioneered by Time, generated $29 million in revenue, while Time's international editions contributed 23 percent of total advertising revenue last year, an all-time high.

To offset rising postal and production costs, Time raised its subscription price from $26 to $31 in July 1978, and in January 1979 the cover price was also raised, from $1 to $1.25. Although Time's total circulation remained stable, the average single copy sale exceeded the 1977 level by 10 percent, and three of our 1978 covers ranked in the top ten best-sellers of the past 25 years.

This year Time will become the first magazine to transmit four-color photographs to its printing plants electronically.

Early in 1979 Time ran the largest single advertisement in its history, and, indeed, the largest ever run in any magazine or any medium. The ad, a 64-page insert containing the complete 1978 Annual Report of Gulf & Western Industries, Inc., represented $5 million of revenue as measured by Publishers Information Bureau.

FORTUNE

After 47 years as the leading business monthly in the U.S., Fortune switched to biweekly publication in January 1978. With the change of frequency, the magazine's scope was expanded and greater timeliness and topicality were achieved. The story lengths were also modified and Fortune's traditional in-depth articles are now balanced by shorter ones. Readers have reacted to the new format with enthusiasm.

The magazine's advertising rate base was increased to 660,000 in January 1979, up 35,000 from Fortune's final rate base as a monthly. Advertising revenues reached $42 million in 1978, up 43 percent from the previous year's level.

SPORTS ILLUSTRATED

S.I. enters its silver anniversary year in fine form. The magazine's advertising revenues topped $100 million for the first time in 1978. This level again places Sports Illustrated fourth among all U.S. magazines in terms of advertising. S.I.'s circulation performance was equally robust. The newsstand price was raised from $1 to $1.25 last year and the subscription price from $20 to $25. As a result, circulation revenues rose by more than 27 percent.

The main reason for S.I.'s strong appeal, of course, is its editorial vitality in a field where participatory activity is growing at a rate six times as fast as the U.S. population. During 1978, S.I. published a number of particularly hard-hitting stories that *made* sports news—e.g., "Money in Sports," "Brutality: The Crisis in Football," and "Confessions of a Master Fixer," an exposé of horseracing.

MONEY

Money magazine enjoyed its best year yet in 1978. With public interest in money questions stimulated by the unsettled state of the U.S. economy, Money's readership increased in 1978, and its advertising rate base was raised from 750,000 to 800,000 for 1979.

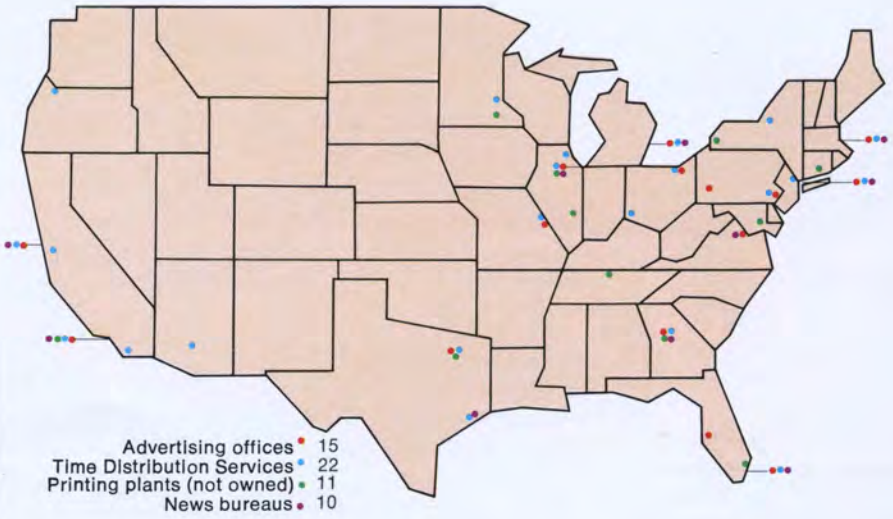
Awareness of the magazine was also enhanced by the frequent appearances of Money's editors on television. Managing Editor William Rukeyser, for example, has been interviewed weekly on the ABC network program, *Good Morning America.*

Money's layout, typography, and logo were all redesigned last year, with the new format appearing first in the January 1979 issue. A new promotion campaign emphasizes its role as "the financial magazine for families."

PEOPLE

People magazine continued its strong growth in 1978. In its fifth year of publication, the magazine's advertising revenues rose 60 percent—to $66.3 million. Circulation also continued to

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climb and the advertising rate base, which was one million copies per week in 1974, was increased to 2.3 million in January 1979. People's cover price was raised last year from 60 cents to 75 cents.

People is sold primarily at newsstands and check-out counters, and reaches a younger audience than any of our other publications. As a result, package goods advertisers bought an estimated $10 million worth of advertising in People last year—advertising that did not appear in our other magazines.

LIFE

The really big magazine news of the year, of course, was the renascence of Life. The new Life retains the large size of the original, but its editorial and marketing rationales have changed. It is a monthly, rich in four-color gravure, printed on heavy paper, and it sells on newsstands at $1.50 per copy. It has already attracted over 400,000 subscribers at $18 per year.

The initial advertising rate base of the new magazine was set at 700,000 copies per issue, but the reader and advertiser response was so enthusiastic (the October 1978 issue carried $849,000 of advertising, a record for the first issue of *any* magazine) that the rate base has been raised to one million copies beginning with the April 1979 issue.

CORPORATE CIRCULATION

This major revenue-producing group-wide operation uses virtually every selling and advertising technique—direct mail, magazines, newspapers, television, and telephones—to promote the single copy and subscription sale of all of Time Inc.'s magazines. All told, Circulation collected some $300 million last year from 12 million purchasers of Time Inc. magazines. Its Time Distribution Services subsidiary assumed full national distributorship functions last year. TDS, originally set up to promote the sale of People magazine at grocery store check-out counters, now has a staff of over 500 full and part-time employees servicing the retail sale of all Time Inc.'s magazines.

SUBSCRIPTION SERVICE

This division, with 1,300 employees in Chicago and 310 in overseas offices in Amsterdam, Tokyo, and Sydney, not only handles the fulfillment of all our magazine subscriptions, but provides similar computerized fulfillment service for Time-Life Books Inc. Last year, Subscription Service also processed the voluminous data collected by Time Inc.'s food product information service, SAMI, and printed and distributed over 47 million pages of SAMI reports. Subscription Service's Telephone Response Center in Chicago handled over two million incoming calls in 1978 and, in addition, made 500,000 outgoing subscription renewal calls.

CORPORATE MANUFACTURING AND DISTRIBUTION

This division purchases paper, printing, and transportation for all Time Inc. magazines, and monitors quality and production and distribution schedules both in the U.S. and abroad. The increase in advertising pages, the launch of Life magazine, and the increased frequency of Fortune during 1978 created substantially greater demands on our manufacturing operations in a market characterized by a growing shortage of paper and press time. During 1978, a total of 677 million Time Inc. magazines were printed and distributed throughout the world.

EDITORIAL SERVICES

This division also had a busy year in 1978. The 86,000-volume reference library, nine-million-image Picture Collection, and automated photo lab provided more service to more magazines (as well as to other Time Inc. groups) than ever before. Last year, Editorial Services continued to explore more advanced technological methods for the pre-press preparation of pictures and text material for our magazines.

MAGAZINES

When Henry R. Luce and Briton Hadden published the first issue of Time magazine in 1923, they could hardly have foreseen the size and diversity that their company would assume 55 years later. They may, however, quite conceivably have had in mind that it should become the leading magazine publishing company in the world—which it has. In 1978 the Magazine Group's six magazines—Time, Life, Fortune, Sports Illustrated, Money, and People—accounted for 34 percent of Time Inc.'s total revenues and 31 percent of pretax profits.



TIME, with ad revenues of $260 million in 1978, was, for the ninth consecutive year, the number one magazine in terms of worldwide advertising revenues. This year it will also become the first to transmit four-color photographs electronically. Above, a technician examines proofs of a Time cover transmitted by high-resolution facsimile.

SPORTS ILLUSTRATED, which provides its readers with the fastest closing color coverage of sports, last year had record ad revenues of $113 million. S.I. ranks fourth among all magazines in the U.S. in ad revenues. Below, S.I. Staff Photographer Walter looss Jr. covering a Dallas-Jets game at Shea Stadium.





LIFE resumed publication as a monthly in October 1978. The first issue of the magazine with its colorful balloon cover attracted $849,000 of advertising, a record for the first issue of any magazine. While retaining the large size of the old Life, the new version will not seek its mass-circulation levels. Above, copies of the first issue of the reborn publication come down the binding line at the printing plant.

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MONEY, our "financial magazine for families," had its best year in 1978, reflecting in part the growing public interest in the subject of money. Money's revenues rose 21 percent, and its advertising rate base was raised to 800,000 copies per month. The magazine's layout, typography, and logo were all redesigned in 1978 (above), with the new format making its debut in January 1979.



PEOPLE magazine continued its remarkable growth last year. Its advertising revenues rose 60 percent, to $66.3 million. In January 1979, People's advertising rate base was raised to 2.3 million copies per issue. Sold primarily at check-out counters and newsstands, People reaches a younger audience than our other publications. As a result, package goods advertising brought an estimated $10 million of advertising which did not appear in our other publications.



FORTUNE, after 47 years as the nation's leading business monthly, began publishing biweekly in January 1978. The increased frequency provided greater editorial and publishing flexibility—and attracted more readers and advertisers. Fortune's advertising rate base, accordingly, was raised to 660,000 in January 1979. Its advertising revenues meanwhile rose 43 percent and reached $42 million in 1978.

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BOOKS

Revenues —$361 million
Pretax Profits —$ 48 million

The Books Group has more than doubled its revenues in the past five years—from $177 million in 1974 to $361 million in 1978. This operating group now consists of Time-Life Books Inc., the first and still the largest entity, with headquarters in Alexandria, Virginia; Little, Brown and Company (Inc.) in Boston; New York Graphic Society Ltd., with its subsidiary Alva Museum Replicas, Inc., located in Greenwich, Connecticut; the Book-of-the-Month Club, Inc., in New York; and Books and Arts Associates, which looks after Time Inc.'s minority interests in a number of major foreign publishing houses.

TIME-LIFE BOOKS INC.

Since 1961 Time-Life Books Inc. has published over 600 titles, most of them in 25 series distributed primarily by mail to subscribers all over the world. Three new series were launched in 1978: the *Time-Life Encyclopedia of Collectibles, The Seafarers,* and *The Good Cook.* In addition, Time-Life Books publishes single titles and limited editions of photographic art.

TLB also markets Time-Life Records. Since 1961, Time-Life Records has produced a total of 109 record albums, and last year it introduced its newest series, *Giants of Jazz*, featuring the works of one leading jazz musician per album.

Time-Life Books Inc.'s revenues of $250 million in 1978 set a new record and accounted for about 69 percent of the Books Group's total revenues, worldwide. All told, TLB sold 25 million volumes in 1978, 17 million of them in the U.S. and 8 million abroad.

Its international division accounted for net revenues of $120 million, a record 48 percent of Time-Life Books' total revenues. A number of new foreign language translations of Books series were introduced abroad in 1978, and another language was added to the Books lexicon when the *Life Nature Library* was published in the Bahasa Indonesian language.

Two firsts for the international division last year were TLB's entry into the German record market with the *Great Men of Music* series, and the initiation of telephone selling in Europe with the launching of a telephone sales operation in Paris.

LITTLE, BROWN AND COMPANY (INC.)

Little, Brown is a wholly owned subsidiary Time Inc. acquired a decade ago. In 1978, Little, Brown had the best year in its 141-year history in both revenues and profits. A leading publisher of professional books (law, medicine, nursing) and college textbooks as well as trade books sold to the general public through bookstores, Little, Brown scored a double victory last year: it placed titles at the top of both the fiction and nonfiction national bestseller lists. The books were William Manchester's *American Caesar* and Herman Wouk's *War and Remembrance.*

BOOK-OF-THE-MONTH CLUB, INC.

BOMC completed its first full year as a member of the Time Inc. Books Group in 1978. Although BOMC's net sales rose to a record $63 million in 1978, its earnings were down slightly, largely as a result of a slow first half.

BOMC's sales and earnings picked up in the second half of 1978, however, partly as a result of two very popular club selections: *Chesapeake* by James A. Michener and *American Caesar,* a biography of Douglas MacArthur by William Manchester. Other strong selections last year included *Prelude to Terror* by Helen MacInnes, *Fools Die* by Mario Puzo, *Stories of John Cheever,* and Betty Ford's *The Times of My Life.* A number of successful promotions in the second half also helped increase membership in BOMC's seven clubs.

NEW YORK GRAPHIC SOCIETY LTD.

The New York Graphic Society is the leading publisher of fine art prints in the U.S. It had record revenues and profits last year. So did Graphic's subsidiary, Alva Museum Replicas, Inc., whose sales of jewelry and artifacts benefited from popular museum exhibits such as the Treasures of Tutankhamun. During 1978 Alva also successfully marketed a limited edition bronze replica of

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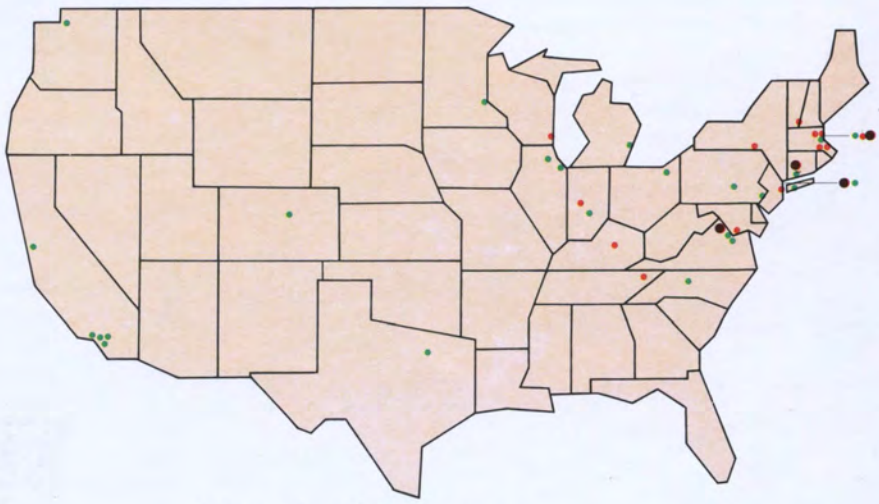
Frederic Remington's *Bronco Buster* at $975 per copy.

BOOKS AND ARTS ASSOCIATES

Time Inc. has minority investments in several leading publishing firms abroad. These include a 33 percent interest in Rowohlt Taschenbuch Verlag, the most important German paperback publisher; 36 percent participation in a leading French book publisher, Editions Robert Laffont; a 40 percent share in Salvat Ediclub, a mail-order firm owned jointly with Salvat Editores, the largest Spanish language publisher; and 20 percent of Organizacion Editorial Novaro in Mexico, which publishes magazines, comic books, children's books, and paperbacks.

Books and Arts Associates also looks after Time Inc.'s 40 percent interest in Shingakusha-Time International, which markets educational products in Japan, and our 33 percent and 40 percent investments, respectively, in two new medical publishing firms in France and Japan, foreign progeny of Little, Brown's very successful medical publishing activities.

Perhaps the most exotic venture undertaken by BAA last year was The Search for Alexander, a multimedia project being mounted in cooperation with the Greek government, which will include the publication of a book, a series of television programs, and a touring exhibit of priceless Alexandrian artifacts. The exhibit will tour a number of U.S. cities beginning in 1980.



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BOOKS

Time Inc. is entering its twentieth year of book publication in 1979. Since 1961 the Books Group has grown enormously and Time Inc. is now one of the largest book companies in the world. Today the group includes not only the original Time-Life Books Inc., which publishes book series sold primarily by mail, but a number of affiliated subsidiaries and associates in the U.S. and abroad, whose publications range from professional textbooks and limited editions to comic books and popular novels. The Books Group also markets such related products as phonograph records and tapes, fine art prints, and replicas of museum artifacts. Last year its revenues reached a record $361 million, up 40 percent from 1977. Pretax profits were also a record high and foreign sales accounted for a larger share of sales, 45 percent, than ever before.



TIME-LIFE BOOKS INC., headquartered in the handsome Atrium in Alexandria, Virginia, is the largest entity in the Books Group. Last year the 17 million books it sold in the U.S. and the 8 million it marketed abroad accounted for 69 percent of the group's total revenues. Since its inception in 1961, TLB has published 25 series and over 600 book titles in 28 languages. Above, staffers look over memorabilia related to the WW II series.



BOOK-OF-THE-MONTH CLUB completed its first year as a member of the Books Group in 1978. The oldest and best known book club in the U.S., BOMC had record revenues of $63 million last year. In addition to its main club, BOMC has six smaller specialized clubs. At right, workers fill orders and place packed books on conveyer.



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NEW YORK GRAPHIC SOCIETY, which is the largest publisher of fine art prints in the U.S., was acquired by Time Inc. in 1966. Framed original graphics such as the one above range in price from $100 to $385. Graphic's wholly owned subsidiary, Alva Museum Replicas, Inc., has exclusive reproduction and marketing rights to many museum jewelry and sculpture pieces. Above, a customer in a museum shop considers a purchase.

BOOKS AND ARTS ASSOCIATES represents Time Inc.'s substantial equity interests in several foreign publishing houses. These range from 20 percent in Organizacion Editorial Novaro in Mexico to 40 percent in a medical publishing firm in Japan. Some of the books published by these firms are translations of our own and other American titles (below).





LITTLE, BROWN, the prestigious 141-year old Boston publishing firm that Time Inc. acquired a decade ago, had its best year ever in 1978. Its revenues have risen 500 percent under the Time Inc. aegis and last year Little, Brown placed books on both the fiction and nonfiction bestseller lists (above).

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FOREST PRODUCTS

Revenues —$471 million
Pretax Profits —$ 73 million

Time Inc.'s Forest Products operations provided a good example of the stabilizing effect of diversification in 1978. While paper earnings declined in the first half of 1978, the demand for building materials remained strong throughout the year. Sales of paper picked up in the second half, and for the year as a whole Forest Products registered record operating profits of $73 million, up 38 percent over 1977, on revenues of $471 million, which were up 31 percent.

The most important Forest Products news of the year, of course, was Time Inc.'s acquisition in November of Inland Container Corporation for $272 million in stock and cash. Inland, a leading manufacturer of corrugated containers, had 1978 revenues of $429 million, almost as high as those of Temple-Eastex. Thus the acquisition approximately doubles the size of our Forest Products operations.

TEMPLE-EASTEX

Temple Division

For the Temple building products division of Temple-Eastex, 1978 was a banner year. The booming rate of construction, particularly of housing in the Sunbelt states served by Temple-Eastex, pushed demand to record levels. Total sales of our building products—fiberboard, plywood, particleboard, lumber, and gypsum—rose to $206 million, a 29 percent increase over the previous year. Profits of the Temple Division were up a full 43 percent in 1978.

The division undertook a number of capital expansion projects during the year, totaling $50 million. These included the construction of the Company's first polyurethane insulation sheathing plant, with a capacity of 70 million square feet per year—or enough material to sheath some 50,000 houses. The Company's entry into polyurethane sheathing represents an important broadening of the division's product line. Production at the new plant is expected to begin in late 1979.

The division also undertook an expansion of its Diboll fiberboard facilities to increase hardboard siding capacity by 65 percent. A new energy-conserving wood-fired boiler is being installed to decrease Temple's dependence on natural gas.

Additionally, particleboard production capacity was increased by 50 percent as a result of the purchase of a Monroeville, Alabama, mill from Olinkraft, Inc.

Eastex Division

The Evadale mill produced 469,000 tons of bleached pulp and paperboard of all grades in 1978, slightly more than in 1977. Moreover, the product mix improved in 1978, with relatively more of the higher quality grades in the total tonnage. Partly as a result of this upgrading, the average price realized on our paperboard sales rose $12 per ton in 1978 to $377, and revenues and profits of paperboard operations topped the 1977 totals.

During the year, the Eastex Division began construction on the first phase of Project 78, a three-year $100 million program of modernization, renovation, and expansion of the Evadale complex. Among the projects completed in 1978 were the rebuilding of the plant's chemical recovery boiler to conserve chemicals and energy and to reduce emissions, modernization of the oldest four-drinier paper machine, and installation of an improved wood-burning fuel system that will reduce consumption of oil and gas.

The Eastex Packaging Division operates three plants that produce a full line of custom-designed packaging for customers across the U.S. For this division 1978 was another year of continued growth.

Temple-Eastex Forests

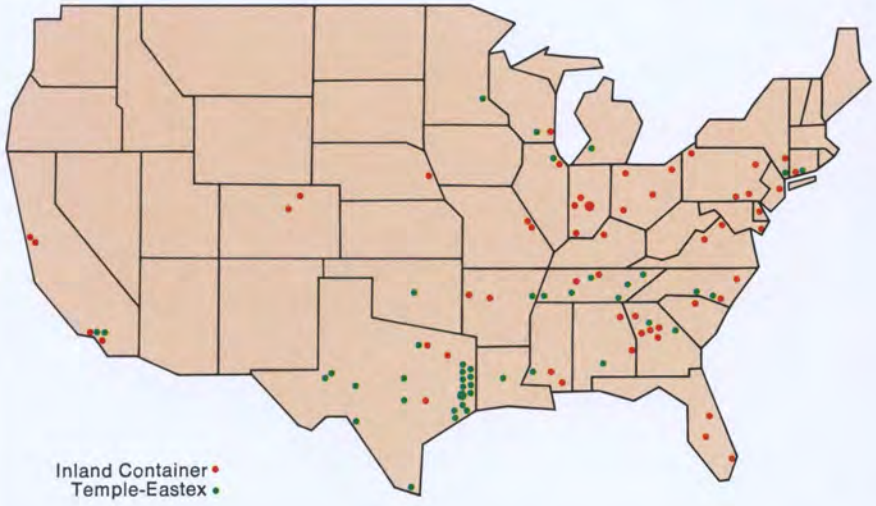
Temple-Eastex owns more than one million acres of timberland in East Texas—somewhat greater in aggregate area than the state of Rhode Island. The pine and hardwood from these forests are used at our plants at Diboll, Pineland, and Evadale, Texas.

At the forest research center and Stillman Nursery, foresters have been developing a new strain of loblolly pine seedlings, and last year the first generation of these seedlings was planted in our forests. Experts have confirmed that they should grow 15 to 25 percent faster than the common loblolly pine.

All together, the Temple-Eastex planting crews last year set out more than 16 million seedlings on approximately 25,000 acres of Company land.

In 1978 Time Inc. reported an extraordinary gain of $6.7 million from the involuntary sale to the federal government of timberland for the Big Thicket National Preserve. Temple-Eastex has al-

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ready purchased over 35,000 acres to replace the 27,000 acres that will ultimately be taken for the preserve.

AFCO and Woodward

AFCO Industries and Woodward, Inc., are Temple-Eastex manufacturing subsidiaries.

AFCO specializes in interior wall products such as decorative panels sold to both the trade and the "do-it-yourself" market. Last year it further diversified its product line by acquiring Touchwood, Inc., of Maxton, North Carolina. Touchwood manufactures specialty wood products, including beams, mantels, and shelving.

Woodward, Inc., located in Austin, Texas, is the largest manufacturer of bedroom furniture in Texas.

Temple Associates

Temple Associates, Inc., is a general contracting firm that engages in architecture and engineering, nonresidential building, steel fabrication, and power transmission line construction. Temple Associates doubled its volume of business in 1978 and opened new regional offices in Monroe, Louisiana, and Atlanta, Georgia.

Lumbermen's Investment Corporation

This Temple-Eastex subsidiary is engaged primarily in mortgage banking, real-estate investment, and insurance. Its operations differ so substantially from all other Time Inc. activities that LIC's results are not consolidated in the financial statements of this report. Based in Austin, LIC was first organized in 1954 to make home improvement loans in small cities in Texas and Oklahoma. Now it handles a loan portfolio that exceeds $1.1 billion, and services mortgages for some 200 institutional lenders.

LIC is also involved in land development (over 5,000 acres in Texas) and the ownership and management of commercial properties. One of LIC's more innovative promotions last year was the sponsorship of the highly successful Legends of Golf tournament at its Onion Creek residential development near Austin. The tournament, limited to senior golf pros, will be one of the major golf events on television this year.

INLAND CONTAINER

Inland Container Corporation, which was acquired by Time Inc. in November 1978, is one of the largest manufacturers of corrugated containers in the U.S. and a fully integrated packaging company. Its addition represents an important diversification move for our Company in the forest products field. Inland operates 27 corrugated box plants and owns timberland, containerboard mills, distribution centers, and ink, tape, and chemical manufacturing facilities.

Containerboard, which is the basic material used to make corrugated boxes, consists of kraft linerboard and corrugating medium. Inland makes its corrugating medium at three mills located in New Johnsonville, Tennessee; Newark, California; and Newport, Indiana. Its linerboard supply comes from Inland's 50 percent ownership of Georgia Kraft Company, which has paper mills in Macon and Rome, Georgia, and Mahrt, Alabama. Georgia Kraft also has a large sawmill in Greenville, Georgia, owns 925,000 acres of timberland in Georgia and Alabama, and leases another 125,000 acres of timberland.

Last year Georgia Kraft broke ground for a $25 million plywood and lumber mill in Madison that will be the largest in Georgia. Georgia Kraft also launched a $50 million expansion of its Macon linerboard mill that will add 500 tons to its daily capacity.

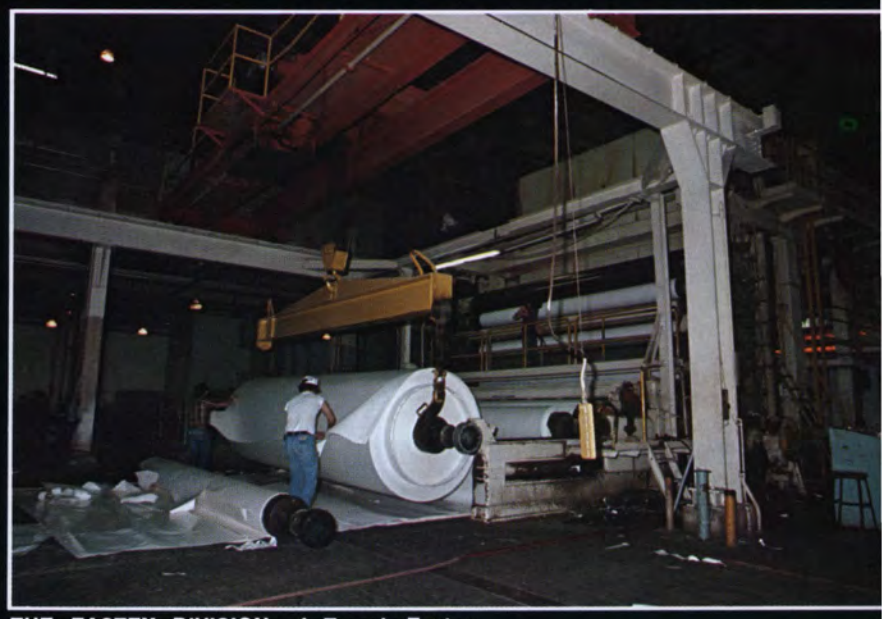
For the corrugated container industry, 1978 was a turnabout year. Early in the year excess inventory and poor demand for containerboard in Europe caused U.S. prices to decline. But by the end of the year demand had picked up sharply and containerboard prices increased as inventories shrank and box shipments rose to near record levels.

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FOREST PRODUCTS

Forest Products operations had their origin back in 1893 when the Southern Pine Lumber Company began operation in Diboll, Texas. In 1973, its successor company, Temple Industries, was acquired by Time Inc. and merged with Time Inc.'s Eastex Incorporated to form Temple-Eastex Inc., a balanced paper and building materials company. Further diversification and growth in Forest Products were achieved last year when Time Inc. acquired Inland Container Corporation, one of the country's largest manufacturers of containerboard and corrugated boxes, two products Temple-Eastex did not previously produce. Inland's acquisition approximately doubled the size of our Forest Products operations.

Last year, Forest Products accounted for $471 million, or 28 percent of Time Inc.'s revenues, and $73 million, or 34 percent of pretax profits. Because Inland was acquired in November 1978, its results are included in this report for only one and a half months.



THE EASTEX DIVISION of Temple-Eastex produced 469,000 tons of bleached pulp and paperboard last year. Eastex produces heavier bleached paperboards, not the grades of paper used in magazines. Last year the Temple-Eastex mill in Evadale, Texas, began a $100 million modernization and expansion program.



INLAND CONTAINER CORPORATION, which Time Inc. acquired last year for $272 million, is among the largest producers of containerboard and corrugated shipping containers in the U.S. (left). The Company did not previously produce these materials. Inland produces shipping containers for a wide range of customers (above) at 27 box plants in the U.S. and abroad.

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THE TEMPLE DIVISION, which is the building materials division of Temple-Eastex Inc., had a superlative year in 1978. Sales, stimulated by the continuing housing boom, rose 28 percent and profits increased by 43 percent. Capacity at the Diboll manufacturing complex was substantially increased, and construction began on a new polyurethane insulation sheathing plant. The fiberboard plant and plywood mill are also being enlarged.



THE TEMPLE-EASTEX FORESTS DIVISION has been working for several years to isolate a superior loblolly pine seed. Recently company foresters began planting the first generation of these seedlings, which are expected to grow 15 to 25 percent faster than ordinary trees. All told, Temple-Eastex planted 16 million seedlings last year.





TEMPLE ASSOCIATES is one of several forest products-related subsidiaries of Temple-Eastex. A rapidly growing service company in the architectural, engineering, and construction fields, Temple opened new regional offices in Monroe, La., and Atlanta, Ga., last year.

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VIDEO

Revenues —$137 million
Pretax Profits —$ 25 million

The Video Group, although still considerably smaller than our publishing and forest products operations, is currently Time Inc.'s fastest growing activity in both revenues and earnings. The group posted revenues of $137 million in 1978, up 74 percent over 1977, while its pretax profits of $25 million were more than four times Video's 1977 earnings.

AMERICAN TELEVISION AND COMMUNICATIONS CORPORATION

The major occurrence in the Video Group in 1978, of course, was Time Inc.'s acquisition of ATC, the second largest cable television system operating company in the U.S. ATC was serving some 800,000 subscribers in 98 systems in 31 states at the end of 1978, and is currently building, or about to build, 10 additional systems in such widely scattered locations as Birmingham, Alabama, Council Bluffs, Iowa, Little Rock, Arkansas, and Orlando, Florida. It has also been awarded a franchise to build potentially the largest system of all in the Borough of Queens, New York.

ATC, which is headquartered near Denver, had 1,613 employees at the end of 1978. It operates five common carrier microwave systems serving more than 200 communities in ten states. A well-managed company with an unusually high profit to sales ratio, ATC had 1978 revenues of $83.7 million.

Time Inc.'s Manhattan Cable Television, Inc., was one of the pioneer big-city cable systems in the U.S. It had a good year in 1978, topping the 100,000 subscriber level for the first time. MCTV, which serves the lower half of Manhattan Island, began operations in 1966. It became operationally profitable in 1977.

HOME BOX OFFICE

HBO continued its dramatic growth in 1978 and was serving over two million subscribers at year end, more than double the number at the beginning of the year. Despite the loss of its largest single customer at the end of the year (Teleprompter Corporation, which bought 50 percent of another pay programming company), HBO increased the number of cable systems it serves from 430 at the beginning of 1978 to 745 at the year end. HBO's affiliated systems, which range in size from a few hundred to many thousands of subscribers, are now located in all 50 states plus Puerto Rico and the Virgin Islands and are linked to HBO's network mostly via domestic communications satellite and terrestrial microwave.

During 1978, HBO not only added affiliates but increased its market penetration of cable systems already served. At the beginning of the year about one cable subscriber in four in the systems served by HBO also subscribed to HBO's pay channel. At the end of the year better than one in three subscribed to HBO, as the acceptance of HBO's uninterrupted (by commercials) subscriber-supported television programming increased. Improved sales and marketing techniques employed by HBO and its affiliates contributed to this greater market penetration.

In October 1978, HBO leased a fourth transponder on the RCA Satcom I communications satellite, and in early 1979 it will begin offering a second pay-TV channel to its cable system affiliates. "Take 2 from HBO" will be a second-tier service offering family-oriented programs at less cost than the prime service.

TIME-LIFE FILMS

Time-Life Films, Inc., was restructured early in 1979 and is at present composed of three operating groups: the Television Distribution division, which handles co-production with the British Broadcasting Corporation and the acquisition of distribution rights to other programs for sale to the public broadcasting service, individual television stations, and cable television; the Network division, which handles network sales and production activities; and the Enterprises division, which markets TLF's programs to schools, libraries, government agencies, and institutions, as well as to the new video cassette home market.

The Television Distribution division handles most of the activities responsible for the increase in Time-Life Films' operating profits last year. In the syndication field it marketed the BBC's 98-episode series *Dr. Who,* as well as its own *World War II: G.I. Diary* and *Wild, Wild World of Animals*. It also began marketing "Time-Life Volume I," a package of 25 made-for-television movies, and "Time-Life Volume II," another package of 25 films, including the hit feature *Nashville.*

Two notable TLF/BBC co-productions were shown on the pub-

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lic broadcasting network. One was *The Long Search,* a history of the world's great religions. The other was *The Duchess of Duke Street,* an Edwardian saga presented on Masterpiece Theatre to high ratings and considerable critical acclaim. In February 1979, PBS began broadcasting the plays of William Shakespeare, a six-year TLF/BBC co-production of all 37 of the plays.

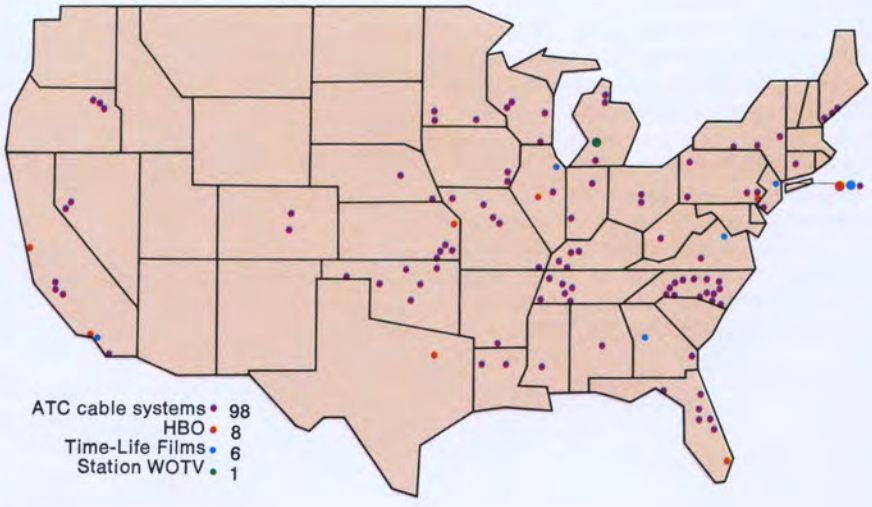
The Network division, now under the direction of David Susskind, supplied more programs to the commercial television networks in 1978 than ever before. Among its original offerings were *Who'll Save Our Children,* a drama about adoption, *Lovey,* a story about disturbed and educationally handicapped children, and *People,* a weekly half-hour show that appeared briefly on CBS but fell victim to the intense prime time rating competition. In the first weeks of 1979, the Network division received orders for five original television movies and now has more than 20 hours of prime time programming in production.

The Enterprises division consists of two marketing units: Time-Life Multimedia, which supplies both instructional and entertainment programming to schools, libraries, government agencies, and institutions; and Time-Life Video, which is developing the new home cassette market. Last year Multimedia launched a new reading skills course, titled the "Time-Life Video Reading Efficiency System," which features TV star Bill Cosby. In 1978 Multimedia also acquired non-theatrical distribution rights to 56 feature films from the Columbia Pictures Corporation Library, including such well-known pictures as *From Here to Eternity, Lawrence of Arabia,* and *Bridge on the River Kwai.*

WOTV

Television station WOTV is Time Inc.'s oldest continuing video operation. The station, which is the NBC network affiliate in Grand Rapids, Michigan, has been on the air since 1951. Time Inc. acquired it in 1957 and today WOTV dominates its market in terms of both audience and advertising revenues, accounting for over 40 percent of the total advertising dollars earned by the four television stations in the Grand Rapids market.

WOTV's news department is the acknowledged leader in its area and has won numerous awards, including, last year, the United Press International citation for the best news program in Michigan. WOTV contributes importantly to the Video Group's profits and last year it again set new records in both revenues and earnings. It serves, additionally, as a valuable sounding board for Time Inc. in the conventional television broadcasting industry.



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VIDEO

The Video Group is currently Time Inc.'s fastest growing activity. Its revenues of $137 million last year were up 74 percent over 1977, while its pretax earnings of $25 million were more than four times the previous year's total.

Although a relatively recent arrival on the video scene, Time Inc.'s electronic roots run deep. In the 1920s our Company was one of the first to use radio for promotion and in the 1930s we introduced the *March of Time,* first on radio and subsequently on film. After World War II, Time Inc. acquired a number of radio and television stations and we still own Station WOTV in Grand Rapids, Michigan.

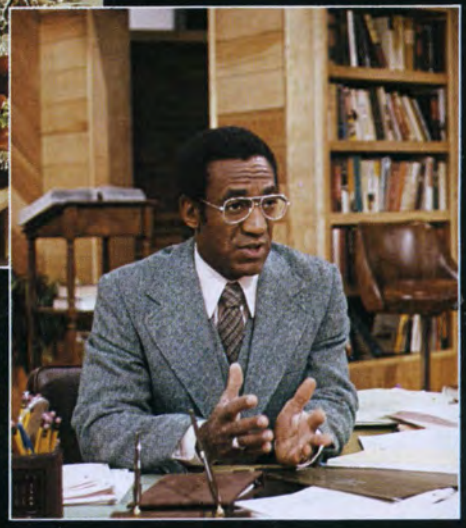
At present the Video Group is engaged in four principal activities: cable television system ownership, television station operation, pay-TV programming, and film production and distribution. The acquisition of American Television and Communications Corp. last year approximately doubled the Video Group's revenues and moved Time Inc. to second place in the cable television business.





AMERICAN TELEVISION AND COMMUNICATIONS, acquired by Time Inc. in 1978, is the second largest CATV system operator in the U.S. It has 98 systems in 31 states serving nearly 900,000 subscribers. A very profitable operation, ATC recently acquired a franchise to build potentially the largest CATV system in the U.S., in Queens , N.Y. Time Inc.'s 100,000-subscriber Manhattan Cable Television subsidiary has been joined with ATC.



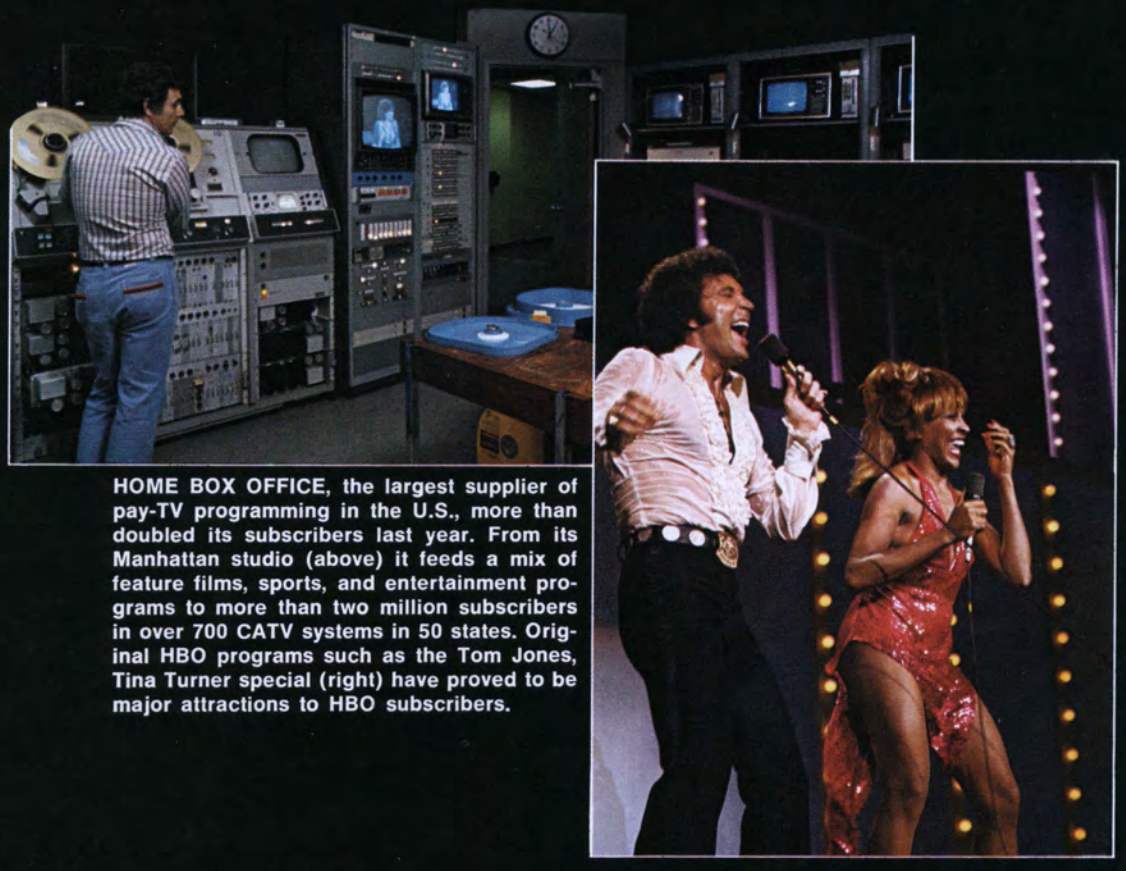


TIME-LIFE FILMS increased its revenues 26 percent last year. It is the U.S. distributor of BBC films such as *The Duchess of Duke Street* (above), and is currently producing 20 hours of programming for prime-time network television. TLF also supplies educational programming, such as the "Time-Life Video Reading Efficiency System" featuring Bill Cosby (right), to schools and institutions.

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WOTV, Time Inc.'s VHF television station in Grand Rapids, Michigan, is a major contributor to the Video Group's earnings. An NBC affiliate, WOTV accounts for over 40 percent of the total advertising revenues in its four-station market. Its NewsCenter 8 (left) has won many awards for the best news operation in Michigan.



HOME BOX OFFICE, the largest supplier of pay-TV programming in the U.S., more than doubled its subscribers last year. From its Manhattan studio (above) it feeds a mix of feature films, sports, and entertainment programs to more than two million subscribers in over 700 CATV systems in 50 states. Original HBO programs such as the Tom Jones, Tina Turner special (right) have proved to be major attractions to HBO subscribers.

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OTHER ACTIVITIES

Revenues —$157 million
Pretax Profits—$ 11 million

Time Inc. engages in a number of businesses that we classify as "Other Activities." For Lines of Business reporting purposes (page 29) these include some activities that fall operationally within our major groups—e.g., Temple-Eastex's Woodward furniture subsidiary is considered an "other activity" in the financial statements. Some activities, however, do not fall within the purview of any operating group, and these are administered by the "Other Activities" group, headquartered in New York.

Among these peripheral businesses are a very successful marketing data company, a chain of suburban weekly newspapers, a printing equipment company, and, as of 1978, a major urban daily newspaper. The "Other Activities" group is also responsible for corporate administration and the Company's real-estate operations. In 1978, revenues of the group rose 69 percent over 1977, but pretax profits declined from $15.3 million to $11.2 million largely as a result of the operating losses incurred by the newly acquired Washington *Star*.

WASHINGTON STAR

In March 1978, Time Inc. purchased the Washington *Star,* the oldest newspaper in the nation's capital. The 126-year-old *Star* is Washington's only afternoon newspaper, and one of two daily papers serving the city's metropolitan area.

Since the acquisition, major editorial and production changes, as well as an extensive promotion effort, have enlivened the newspaper. The *Star* is now headed by a new publisher and a new editor. Local editions, with expanded coverage of local news events, are published five days a week for five different regions. Major equipment purchases have increased the *Star's* ability to serve advertisers and streamlined the typesetting operation. An award-winning promotion campaign, featuring two fictional characters —Private Ears Sam and Janet Evening—has been launched. The downward trend in circulation has been halted and the rebuilding process begun with a promotion campaign designed to sell the newspaper on the basis of intrinsic value.

Following negotiations with the *Star's* 11 unions and the signing of new contracts, Time Inc. has committed $60 million to revitalize the newspaper.

AFFIRMATIVE ACTION

Time Inc. has long been committed to a policy of equal opportunity for all its employees. In recent years our efforts have focused specifically on affirmative action programs designed to encourage the placement and promotion of qualified women and members of minority groups in professional and managerial jobs.

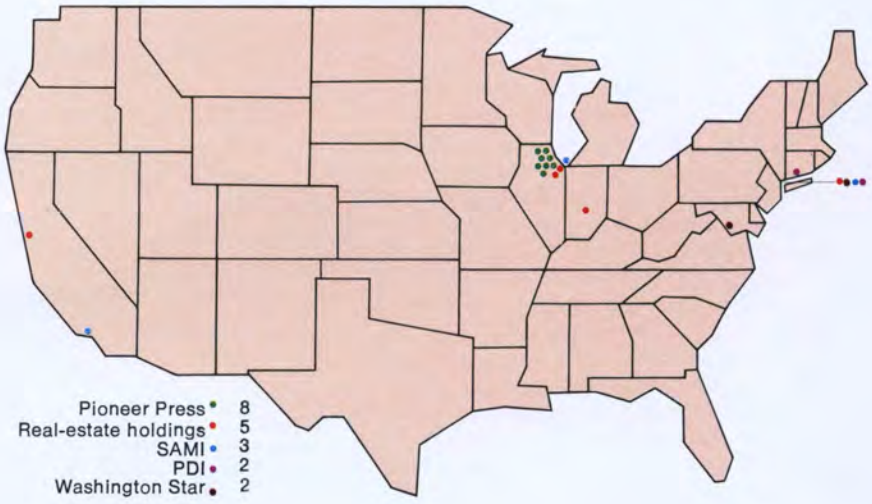
Our equal opportunity commitment also extends to the employment and promotion of handicapped people and veterans of the Vietnam era. Action was taken last year to strengthen these programs and we are seeking qualified candidates.

The overall planning and coordination of equal opportunity programs is the responsibility of the Personnel Department. However, the success of these programs depends on implementation by the Company's operating managers. The progress Time Inc. has made in affirmative action to date is the result of the programs undertaken in each of our individual businesses. The results of each division's efforts are reviewed by the board of directors semi-annually.

The goals of affirmative action within Time Inc. are achieved by promotion from within, by seeking out job candidates, by internal staff development (tuition-refund programs and in-house courses), by in-house career counseling and management training workshops, and by corporate support of outside organizations devoted to the education and development of women and minority groups.

Our affirmative action programs have already achieved considerable success. From 1974 to 1978 our reports to the EEOC show that the proportion of minority group employees in managerial jobs at Time Inc. has increased from 5 percent to 8 percent, while those in sales positions have risen from 6 percent to 19 percent. Women have increased their share of managerial jobs from 26 percent in 1974 to 30 percent now. We recognize there is more to be done and we are determined to attain the goal of full equality of opportunity at Time Inc.

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SAMI

Selling Areas-Marketing, Inc., is the most profitable operation in the "Other Activities" group. It provides grocery product manufacturers with computer-generated data on the movement of their own and other companies' products through retail outlets. Last year SAMI supplied data to more than 425 manufacturers on product movements in 39 U.S. markets representing 77 percent of total U.S. food store sales. SAMI's revenues were up 18 percent over 1977 and profits rose to a record high.

SAMI has borne several acronymic offspring:

- SARDI (SAMI Retail Distribution Index), which measures the distribution of consumer products in retail food outlets.
- SIFT (SAMI Institutional Foodservice Trends), which measures the flow of products from distributors to the institutional food-service market (restaurants, hotels, etc.).
- SOLO (SAMI On-Line Operations), which provides clients with immediate answers to specific marketing questions that are addressed to SAMI's huge data banks.

Early in 1979, SAMI introduced SAMI Scanner Store Data Service, its first interface with the new Universal Product Code (UPC) scanning devices that are being installed at check-out counters in supermarkets across the country. In a pilot program in Kansas City, SAMI Scanner Store Data Service has begun measuring the movement of UPC-coded products through scanners in selected stores. Another scanner service will monitor the purchases of a select consumer panel in order to obtain demographic and other buying information for food product manufacturers.

SAMI plans to expand its activities internationally in 1979 by offering its basic service in Canada.

PIONEER PRESS

Time Inc.'s group of 18 weekly newspapers serving the Chicago suburban area had another record year in 1978 in both revenues and profits. Revenues rose by 13 percent and profits by 10 percent. While small in comparison with Time Inc.'s other publishing operations, Pioneer is unique among weekly newspaper publishers in the U.S. in several respects. All of the Pioneer newspapers are published in tabloid size and magazine format and they also carry some of the highest newsstand cover prices (up to 50 cents) of any newspapers in the country.

Early in 1978 an automated pre-press system linking all of Pioneer's newspapers in a computerized data transmission network was completed. The system, which has 75 terminals, handles news and both display and classified ads and gives Pioneer's local papers some of the economies of scale usually found only in much larger newspapers, while enabling them to maintain a local editorial presence.

Pioneer's acquisition of *The World,* in Oak Park, Illinois, in March 1978 increased to 18 the number of papers in this profitable small newspaper operation.

PDI

Printing Developments, Inc., is another relatively small but profitable "other activity."

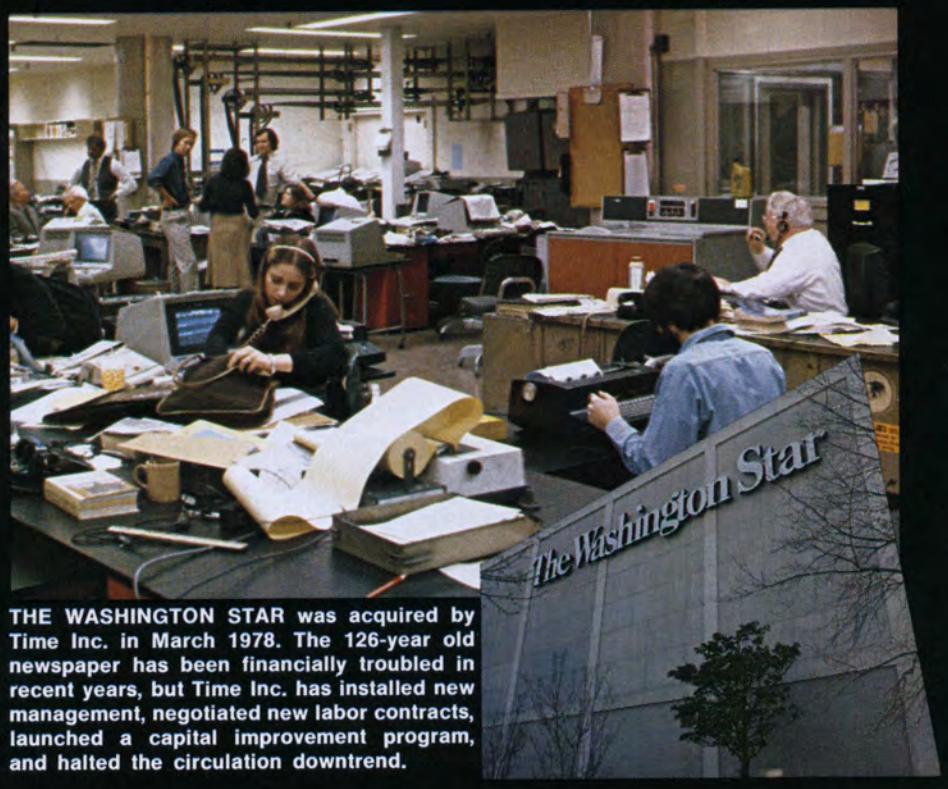
PDI manufactures and markets computer-related printing equipment for sale and lease both in the U.S. and abroad. Its principal product is a sophisticated electronic color scanner developed at its East Norwalk, Connecticut, research facility. PDI is also participating in the development of a filmless pre-press system that will use the color scanner's capabilities in conjunction with state-of-the-art computer techniques to control the direct etching of printing plates.

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OTHER ACTIVITIES

Activities that do not fall within the purview of any of the Company's four principal operating groups—magazines, books, video, and forest products—are administered by the Other Activities Group, headquartered in New York. This group is also responsible for corporate administration and for the management of Time Inc.'s extensive real-estate holdings.

Other Activities was the only operating group that did not reach a new high in pretax earnings last year. Its revenues of $157 million were up 69 percent from the previous year, but its pretax profits were down—$11 million in 1978 vs. $15.3 million in 1977. The reason for the decline was the inclusion of the Washington *Star* in last year's results for the first time and the *Star* operated at a deficit in 1978. However, Time Inc. is committed to investing $60 million in five years to restore the *Star* to its previous stature and profitability. Of the other operations in the Other Activities Group, SAMI, Pioneer Press, and Real Estate reported record revenues and pretax profits in 1978.



THE WASHINGTON STAR was acquired by Time Inc. in March 1978. The 126-year old newspaper has been financially troubled in recent years, but Time Inc. has installed new management, negotiated new labor contracts, launched a capital improvement program, and halted the circulation downtrend.



PIONEER PRESS, Time Inc.'s group of weekly newspapers in the Chicago suburbs added an 18th paper last year. Above, the main newsroom in Wilmette and, at left, classified ads being pasted up. All the papers are linked by a computerized data transmission network with 75 terminals that give the group the efficiencies of a larger paper for both editorial and advertising purposes.

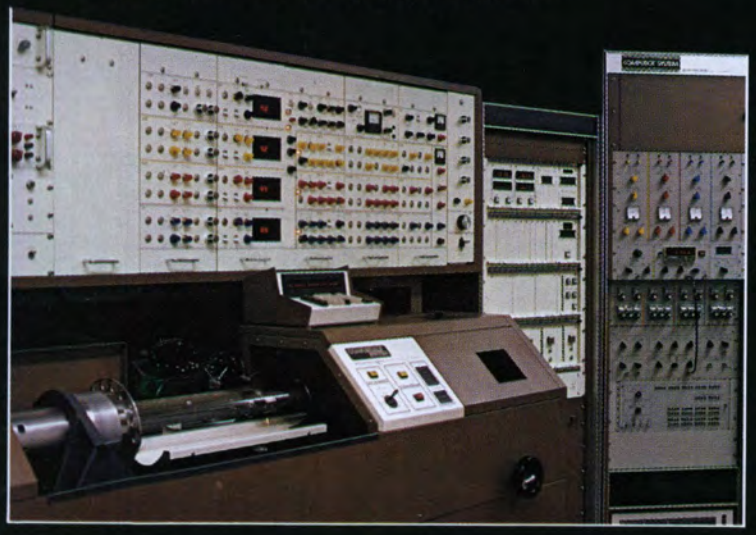
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SAMI (Selling Areas-Marketing, Inc.) is our marketing data subsidiary and the most profitable of Time Inc.'s Other Activities. SAMI reports on the movement of products from warehouses to grocery stores in 39 markets representing 77 percent of all U.S. grocery store sales. Last year, it supplied 425 clients with some 47 million pages of data produced by Time Inc.'s computers in Chicago (left and above). SAMI's sales and profits reached new highs in 1978.

PDI manufactures and distributes computer-related printing equipment for lease and sale to customers both in the U.S. and abroad. Its principal product is the Compudot color scanner system (below), which is used to make photographic color separations. PDI is currently working on the development of a filmless prepress system that will use color scanning in conjunction with an advanced computer for direct etching of printing plates.





REAL ESTATE operations are handled by the Other Activities Group. Time Inc. at present owns equity interests in nine office buildings and warehouses with an estimated total value of $150 million. Last year Board Chairman Andrew Heiskell, in the presence of New York Mayor Ed Koch and ex-Mayor Abe Beame, renewed Time Inc.'s lease on the Time & Life Building at Rockefeller Center for 20 years. Time Inc. owns 45 percent of the building.

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FINANCIAL REVIEW

In 1978 the Company's income before an extraordinary gain was a record $119 million, up 31 percent from 1977. The Company also realized an extraordinary gain of $6.7 million after taxes as compensation for the involuntary sale of timberland to the federal government.

The improved profit performance was due to record years for the magazine and book publishing, forest products, and video operations. These gains more than offset decreased profit for the Other Activities Group.

Magazine income was up owing to increased advertising and circulation revenues, while book publishing reflected a full year's impact of Book-of-the-Month Club earnings.

Within the forest products operations, building materials showed substantial gains over 1977 due to increased prices and strong home building activity. Pulp and paperboard operations also benefited from improved market conditions and contributed to the overall profit improvement. Results for the forest products operation include the operating earnings of Inland Container Corporation for one and a half months.

The strong performance of the video group was due primarily to the growth of Home Box Office, our pay cable television network. Results for the video group include the operating earnings of American Television and Communications Corporation (ATC) for one and a half months.

Earnings for the Other Activities group decreased from 1977 because of losses from the Washington *Star.*

Net income for the preceding year, 1977, was $90.5 million, up 35 percent from 1976. The increase was due to gains in magazine and book publishing, and a strong year for building materials. These gains more than offset a decrease in profit from pulp and paperboard operations, chiefly due to a world surplus of market pulp and a soft domestic market for bleached paperboard.

The Company's effective tax rate was 44.4 percent for the year 1978, compared to 44.1 percent for the year 1977 and 38.7 percent for the year 1976. The lower tax rate in 1976 was chiefly due to investment tax credits that resulted from the $64 million expansion program at the Company's paper mill in Evadale, Texas.

The quarterly dividend rate per share of common stock was increased by 15.4 percent in April 1978, from 32½¢ per share to 37½¢ per share. In 1978, the common stock dividend paid was $1.45 per share compared to $1.2625 per share the preceding year. The current annual rate is $1.50 per share based on the April 1978 increase.

The quarterly dividend rate for Series A Preferred Stock for 1978 was 39⅜¢ per share, or an annual rate of $1.575. As of November 14, 1978, this was also the dividend rate of newly created Series B Preferred Stock.

During 1978 the Company acquired Inland Container Corporation, American Television and Communications Corporation, and the Washington *Star.* Each is now a wholly owned subsidiary.

Inland Container Corporation is a manufacturer of corrugated shipping containers and related products. The Company acquired approximately 25 percent of Inland shares outstanding on August 4, 1978, following a tender offer of $35 per share. On November 14, 1978, the Company acquired 1.6 million additional shares for $57.2 million in cash and converted the remaining outstanding shares into 1.9 million shares of Time Common Stock and 1.9 million shares of Series B $1.575 Cumulative Convertible Preferred Stock. The entire transaction is valued at about $272 million.

Also on November 14, 1978, the Company acquired American Television and Communications Corporation, the second-largest cable system operator in the country. The Company, which previously owned approximately 26 percent of ATC's Common Stock, exchanged $17.4 million in cash and 4.2 million shares of Time Series B $1.575 Cumulative Convertible Preferred Stock for the remaining ATC shares. The entire transaction is valued at about $180 million, including the pre-1978 investment.

On March 15, 1978, the Company acquired the Washington *Star,* an afternoon daily newspaper serving the Washington D.C. metropolitan area. The *Star* has a daily circulation of about 330,000 and a Sunday circulation of about 315,000.

Capital expenditures for property and equipment totaled $111.9 million in 1978 and $49.5 million in 1977. Included in the expenditures were purchases of 8,225

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Lines of Business

Time Incorporated and Subsidiaries (in millions)	1978	1977	1976	1975	1974
Revenues					
Publishing:					
Magazines	$ 571.8	$ 459.9	$ 366.3	$317.7	$301.2
Books[1]	360.9	258.2	227.6	213.3	177.3
Forest Products:					
Pulp and paperboard	189.7	183.1	174.5	158.5	159.8
Building materials	225.9	176.8	132.4	99.1	82.6
Container and containerboard	55.0	—	—	—	—
Video[2]	136.9	78.8	54.7	33.3	21.9
Other Activities[3]	157.4	93.0	82.7	88.8	82.8
Total Revenues	$1,697.6	$1,249.8	$1,038.2	$910.7	$825.6
Income (Loss) Before Taxes and Extraordinary Item					
Publishing:					
Magazines	$ 66.2	$ 53.3	$ 37.0	$ 22.0	$ 29.0
Books[1]	47.7	44.2	25.7	20.8	14.0
Forest Products:					
Pulp and paperboard	26.4	22.7	36.8	41.9	58.5
Building materials	43.1	30.2	14.0	1.1	1.4
Container and containerboard	3.7	—	—	—	—
Video[2]	24.9	6.1	(1.9)	(2.8)	(5.9)
Other Activities[3]	11.2	15.3	12.2	7.6	9.8
Operating Profit	223.2	171.8	123.8	90.6	106.8
Financial income	13.6	8.8	9.4	8.0	8.7
Interest expense	(12.5)	(10.4)	(10.8)	(10.3)	(10.7)
Equity in earnings of unconsolidated subsidiaries and companies 20% to 50% owned[4]	10.6	4.3	3.8	.3	(.6)
Unallocated corporate overhead	(21.1)	(14.9)	(14.0)	(12.6)	(11.5)
Foreign currency translation gain (loss)[5]	3.3	2.3	(2.8)	—	—
Unusual charges to income	(3.1)	—	—	—	(3.2)
Income Before Taxes and Extraordinary Item	$ 214.0	$ 161.9	$ 109.4	$ 76.0	$ 89.5

[1] Publication of books and recordings.

[2] TV broadcasting, film production and distribution, and operation of cable-TV and pay-TV systems.

[3] Marketing of information relating to the movement of supermarket products, newspaper publishing, sale of equipment and services to the graphic-arts industry, manufacture of furniture and beverage cases, reproduction and sale of fine art prints and museum artifacts, and commercial and industrial contracting.

[4] Includes $1.1 million of Georgia Kraft net income related to container and containerboard operations in 1978.

[5] Net foreign exchange gains (losses) arising from the conversion of foreign currencies and the translation of balance sheet items are excluded from operating profit in 1978, 1977, and 1976 and were immaterial in 1975 and 1974.

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Ten-Year Financial Summary

Time Incorporated and Subsidiaries
(in millions except for per share amounts)

	1978	1977	1976
Income and Dividends			
Revenues	$1,697.6	$1,249.8	$1,038.2
Costs and Expenses:			
Editorial, production, manufacturing and distribution	1,060.3	775.8	649.9
Selling, administrative and general	438.0	321.7	283.4
Operating income	199.3	152.3	104.9
Other income—net excluding interest expense	27.2	20.0	15.3
Interest expense	12.5	10.4	10.8
Income before taxes, discontinued operations and extraordinary items	214.0	161.9	109.4
Taxes on income	95.0	71.4	42.3
Income before discontinued operations and extraordinary items	119.0	90.5	67.1
Discontinued operations, net of taxes	—	—	—
Income before extraordinary items	119.0	90.5	67.1
Extraordinary items, net of taxes	6.7	—	—
Net income	125.7	90.5	67.1
Earnings Per Share—Fully Diluted*			
Income before discontinued operations and extraordinary items	$ 5.31	$ 4.37	$ 3.32
Net income	5.61	4.37	3.32
*1975 and prior years adjusted for two-for-one stock split in 1976.			
Dividends paid per common share	$1.45	$1.2625	$1.075
Average shares outstanding (000)	22,397	20,696	20,192

acres of timberlands in 1978 and 17,400 acres of timberlands in 1977, all part of the Company's program to replace the 27,000 acres that have been designated for inclusion in the Big Thicket National Preserve.

Depreciation, amortization, and depletion totaled $41.6 million in 1978 and $34.2 million in 1977.

Interest expense was $12.5 million in 1978, $10.4 million in 1977, and $10.8 million in 1976. The balance sheet continues to reflect the soundness of the Company's liquidity and financial position. The ratio of current assets to current liabilities at year end was 1.7 to 1. Despite the Company's increased capital requirements due to acquisitions in 1978, long-term debt as of December 31, 1978, was 22.7 percent of total capitalization, which consists of shareholders' equity plus long-term debt.

MAGAZINE PUBLISHING

The Company's magazines are Time, Fortune, Sports Illustrated, People, Money, and Life. Income before taxes from magazine activities was $66.2 million in 1978, $53.3 million in 1977, and $37 million in 1976. The 24 percent gain in 1978 over 1977 was due to increases in magazine revenue from both advertising and circulation. These gains more than compensated for the costs of introducing Life as a monthly and restructuring Fortune and for increased postal costs. Gains for the preceding year, 1977, over 1976 were also attributable to increased advertising and circulation revenues. For both 1978 and 1977, increased advertising revenue reflected both higher prices

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1975	1974	1973	1972	1971	1970	1969
$910.7	$825.6	$728.3	$608.6	$544.5	$497.4	$461.2
575.0	511.0	428.4	358.2	330.4	306.9	279.9
261.9	226.3	213.9	189.1	161.6	140.6	127.2
73.8	88.3	86.0	61.3	52.5	49.9	54.1
12.5	11.9	13.0	14.7	12.3	10.9	12.0
10.3	10.7	7.7	7.5	7.8	7.1	8.0
76.0	89.5	91.3	68.5	57.0	53.7	58.1
30.9	39.3	41.4	30.2	24.4	22.7	27.0
45.1	50.2	49.9	38.3	32.6	31.0	31.1
—	—	—	(3.5)	(3.4)	(7.4)	(6.1)
45.1	50.2	49.9	34.8	29.2	23.6	25.0
—	—	(2.4)	(3.0)	0.9	(3.2)	3.5
45.1	50.2	47.5	31.8	30.1	20.4	28.5
$ 2.26	$ 2.50	$ 2.41	$ 1.85	$ 1.58	$ 1.51	$ 1.52
2.26	2.50	2.29	1.54	1.46	0.99	1.39
$1.00	$1.00	$.95	$.95	$.95	$.95	$1.15
19,949	20,062	20,760	20,746	20,596	20,492	20,446

and additional pages. A breakdown of magazine revenue for the past three years follows:

	1978	1977	1976
	(in millions of dollars)		
Magazines			
—Advertising	$347	$274	$217
—Circulation	223	183	147
—Other	2	3	2
Total	$572	$460	$366

BOOK PUBLISHING

The major components of book publishing are Time-Life Books Inc., Little, Brown and Company (Inc.), and Book-of-the-Month Club, Inc. Income before taxes from book publishing was $47.7 million in 1978, $44.2 million in 1977, and $25.7 million in 1976. These figures do not include net foreign exchange gains of approximately $4 million in 1978, $2 million in 1977, and an exchange loss of about $2.8 million in 1976, attributable to foreign operations of the books group. Gains for books in 1978 over 1977 primarily reflect the inclusion of a full year's earnings for Book-of-the-Month Club.

The gains in 1977 over 1976 were due to strong domestic mail-order business, savings associated with the move of Time-Life Books to Virginia, and favorable foreign results. A breakdown of book publishing revenue for the past three years follows:

	1978	1977	1976
	(in millions of dollars)		
Time-Life Books	$250	$215	$192
Other Publishing*	111	43	36
Total	$361	$258	$228

*Includes revenues of Book-of-the-Month Club from December, 1977.

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FOREST PRODUCTS

Forest products includes the complex of operations managed by Temple-Eastex Incorporated as well as the newly acquired Inland Container Corporation. Lines of business within forest products include Temple's building materials, the pulp and paperboard operations, which are chiefly attributable to Eastex, and the container and containerboard operations of Inland. Major product lines within building materials are particleboard, plywood, fiberboard, lumber, gypsum wallboard, and decorative wall panels (AFCO operations).

Income before taxes from forest products activities was $73.2 million in 1978, $52.9 million in 1977, and $50.8 million in 1976. Net unit revenues (average prices) of our principal forest products over the past three years were:

	1978	1977	1976
Paperboard (per ton)	$377	$365	$350
Pulp (per ton)	226	250	275
Lumber (per thousand board feet)	219	189	162
Fiberboard*	90	77	69
Plywood*	159	148	121
Particleboard*	150	118	83
Gypsum wallboard*	68	52	40

*per thousand square feet

Building materials contributed $43.1 million of pretax earnings for 1978, compared to $30.2 million for 1977 and $14 million for 1976. The gains for 1978 reflect price increases that resulted from stronger housing demand.

Pretax earnings for pulp and paperboard operations were $26.4 million in 1978, $22.7 million in 1977, and $36.8 million in 1976. The gain in 1978 over 1977 was chiefly due to demand recovery in the fourth quarter.

Inland's performance was particularly strong during the final month and a half of 1978 for which it was part of the Company. This was due to strong demand.

Decreased profits in 1977 compared to 1976 were due to a continued decline in pulp prices and modest paperboard price increases combined with inflation in manufacturing costs. Price performance reflected the weakness in the world market demand for pulp and the marginal increase in demand for paperboard grades produced by Eastex.

VIDEO

The Video Group includes Home Box Office, our pay cable television network; WOTV, our television broadcasting station in Grand Rapids, Michigan; Manhattan Cable Television; Time-Life Films; and the newly acquired ATC. Income before taxes was $24.9 million for 1978, compared to $6.1 million in 1977 and losses of $1.9 million in 1976.

The major contributor to the improvement in both 1978 and 1977 was Home Box Office, which became profitable in the third quarter of 1977. The gains reflect improved programming and marketing techniques by Home Box Office and its affiliated cable operators, which produced substantially increased numbers of subscribers and revenues. Losses for Home Box Office in 1976 were due to cost increases, especially for diversified programming, which more than offset growth in revenues.

WOTV, Manhattan Cable Television, and Time-Life Films all gained over 1977. Video earnings also include the results of American Television and Communications Corporation for one and a half months. Included in equity income is our share in ATC during the rest of the year.

OTHER ACTIVITIES

Other Activities include Selling Areas-Marketing, Inc. (SAMI), which markets computer-generated information on the sales flow of food products; Printing Developments, Inc., which provides graphic arts equipment and services; Pioneer Press, which publishes a group of suburban newspapers; Woodward, Inc., a furniture manufacturer; Temple Associates, a contracting firm; the Washington *Star,* an afternoon daily newspaper serving the Washington D.C. metropolitan area; and several real-estate and land development activities.

Income before taxes was $11.2 million in 1978, $15.3 million in 1977, and $12.2 million in 1976. The decrease in profit for 1978 is due to the losses of the *Star,* which more than offset improvements for SAMI and Pioneer Press and gains from the sale of real-estate holdings. The increase in 1977 over 1976 was chiefly the result of improved performances for SAMI and Pioneer Press.

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Consolidated Statement of Income

Time Incorporated and Subsidiaries
(in thousands except for per share amounts)
For years ended December 31

	1978	1977
Revenues	**$1,697,585**	$1,249,816
Costs and Expenses		
Editorial, production, manufacturing, and distribution	**1,060,315**	775,759
Selling, administrative, and general	**437,980**	321,791
Total Costs and Expenses	**1,498,295**	1,097,550
Operating Income	**199,290**	152,266
Other income—net	**14,731**	9,673
Income Before Taxes and Extraordinary Item	**214,021**	161,939
Taxes on income	**95,000**	71,400
Income Before Extraordinary Item	**119,021**	90,539
Extraordinary item	**6,721**	—
Net Income	**125,742**	90,539
Preferred dividends	**2,615**	—
Net Income Less Preferred Dividends	**$ 123,127**	$ 90,539
Earnings Per Share		
Primary		
Income Before Extraordinary Item	**$5.47**	$4.44
Net Income	**$5.78**	$4.44
Fully Diluted		
Income Before Extraordinary Item	**$5.31**	$4.37
Net Income	**$5.61**	$4.37

The accompanying notes are an integral part of this financial statement.

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Consolidated Balance Sheet

Time Incorporated and Subsidiaries
(in thousands)

ASSETS as of December 31	**1978**	1977*
Current Assets		
Cash	**$ 48,148**	$ 32,869
U.S. Government and other short-term securities—at cost (approximately market)	**35,772**	130,946
Receivables, less allowances of $47,846,000 in 1978 and $38,069,000 in 1977	**274,155**	175,259
Inventories—at the lower of cost or market:		
Work in process and finished goods	**124,107**	92,905
Paper and other materials	**72,682**	33,595
Prepaid expenses and other current assets	**95,386**	62,257
Total Current Assets	**650,250**	527,831
Investments		
Unconsolidated subsidiaries	**16,507**	14,180
Companies 20% to 50% owned	**16,298**	31,240
Others—at cost less allowances of $2,196,000	**15,412**	26,906
Marketable equity securities—quoted market price of $16,258,000 in 1978 and $25,956,000 in 1977	**14,576**	20,588
Total Investments	**62,793**	92,914
Property and Equipment—at cost		
Buildings	**137,116**	92,446
Machinery and equipment	**710,916**	425,800
	848,032	518,246
Less allowances for depreciation and amortization	**(260,705)**	(243,484)
	587,327	274,762
Timber and timberlands, less depletion	**61,956**	52,470
Georgia Kraft—Mill operating properties and timberlands	**172,688**	—
Land	**18,860**	8,850
Total Property and Equipment	**840,831**	336,082
Cable Television Franchises, less amortization	**31,761**	—
Goodwill	**165,285**	41,536
Other Assets	**50,448**	54,917
TOTAL ASSETS	**$1,801,368**	$1,053,280

The accompanying notes are an integral part of this financial statement.
*Reclassifed for comparative purposes.

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LIABILITIES AND SHAREHOLDERS' EQUITY	1978	1977
Current Liabilities		
Accounts payable and accrued expenses	**$ 286,976**	$ 123,514
Employee compensation and profit-sharing contributions	**32,288**	19,261
Taxes on income	**24,147**	42,266
Loans and current portion of long-term debt	**35,895**	9,781
Total Current Liabilities	**379,306**	194,822
Unearned Portion of Paid Subscriptions	**134,388**	114,870
Long-Term Debt	**271,295**	127,689
Deferred Federal Income Taxes	**65,513**	53,930
Other Liabilities	**25,686**	10,549
Shareholders' Equity		
Preferred Stock—$1 par value; authorized 12,500,000 shares, issuable in series:		
Series A $1.575 Cumulative Convertible Preferred Stock (stated redemption requirement and liquidation preference —$32,799,000 in 1978 and $32,613,000 in 1977), issued and outstanding 1,093,300 shares in 1978 and 1,087,100 shares in 1977, each convertible into .72 shares of common stock	**1,093**	1,087
Applicable additional paid-in capital	**31,604**	31,515
	32,697	32,602
Series B $1.575 Cumulative Convertible Preferred Stock (stated redemption requirement and liquidation preference —$182,448,000), issued and outstanding 6,081,600 shares, each convertible into .72 shares of common stock	**6,082**	—
Applicable additional paid-in capital	**191,199**	—
	197,281	—
Common Stock—$1 par value; authorized 35,000,000 shares, issued 22,675,400 in 1978 and 20,784,100 in 1977	**22,675**	20,784
Additional paid-in capital	**121,437**	41,488
Retained income	**555,801**	463,147
Treasury stock, at cost; common shares—238,700 in 1978 and 364,900 in 1977; preferred shares—22,000 in 1978	**(4,711)**	(6,601)
Total Shareholders' Equity	**925,180**	551,420
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$1,801,368**	$1,053,280

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Consolidated Statement of Shareholders' Equity

Time Incorporated and Subsidiaries
(in thousands)

	Preferred Stock Series A	Preferred Stock Series B	Common Stock	Additional Paid-in Capital	Retained Income	Treasury Stock	Shareholders' Equity
Balance at December 31, 1976	$ —	$ —	$20,784	$ 40,200	$398,346	$(8,882)	$450,448
Net Income	—	—	—	—	90,539	—	90,539
Stock options exercised	—	—	—	791	—	1,777	2,568
Acquisition of Talent Associates Ltd.	—	—	—	497	—	504	1,001
Acquisition of Book-of-the-Month Club, Inc.	32,602	—	—	—	—	—	32,602
Dividends paid on common stock $1.2625 per share	—	—	—	—	(25,738)	—	(25,738)
Balance at December 31, 1977	$32,602	$ —	$20,784	$ 41,488	$463,147	$(6,601)	$551,420
Net Income	—	—	—	—	125,742	—	125,742
Stock options exercised	95	33	—	1,696	—	2,283	4,107
Acquisition of Inland Container Corporation	—	62,177	1,891	78,253	—	—	142,321
Acquisition of American Television and Communications Corporation	—	135,071	—	—	—	(393)	134,678
Dividends paid on preferred stock— Series A—$1.640625 per share, Series B—$0.135625 per share	—	—	—	—	(2,615)	—	(2,615)
Dividends paid on common stock $1.45 per share	—	—	—	—	(30,473)	—	(30,473)
Balance at December 31, 1978	$32,697	$197,281	$22,675	$121,437	$555,801	$(4,711)	$925,180

The accompanying notes are an integral part of this financial statement.

Increases (Decreases) in Components of Working Capital

(in thousands) For years ended December 31	1978	1977
Cash and short-term securities	**$(79,895)**	$ 38,238
Receivables	**98,896**	43,612
Inventories	**70,289**	29,232
Prepaid expenses and other current assets	**33,129**	10,169
Increase in Current Assets	**122,419**	121,251
Accounts payable and accrued expenses	**163,462**	23,736
Employee compensation and profit-sharing contributions	**13,027**	3,791
Taxes on income	**(18,119)**	41,439
Loans and current portion of long-term debt	**26,114**	3,525
Increase in Current Liabilities	**184,484**	72,491
Increase (Decrease) in Working Capital	**$(62,065)**	$ 48,760

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Consolidated Statement of Changes in Financial Position

Time Incorporated and Subsidiaries
(in thousands)

For years ended December 31	1978	1977
Sources of Funds		
From Operations:		
Income Before Extraordinary Item	**$119,021**	$ 90,539
Charges (credits) not affecting working capital:		
Depreciation, amortization, depletion	**41,621**	34,185
Deferred federal income taxes	**16,015**	6,307
Provision for losses on investments	**—**	1,717
Equity in net income of 20% to 50% owned companies	**(5,633)**	(1,821)
Equity in net income from unconsolidated subsidiaries	**(1,901)**	(1,398)
Total from operations exclusive of extraordinary item	**169,123**	129,529
Extraordinary Item	**6,721**	—
Total from Operations	**175,844**	129,529
Additions of long-term debt resulting from acquisitions	**118,855**	693
Increase in long-term debt	**42,082**	2,990
Increase in other liabilities	**15,137**	725
Increase in unearned portion of paid subscriptions	**19,518**	17,824
Investments reclassified for businesses consolidated	**27,674**	—
Dispositions of investments	**21,168**	7,183
Dispositions of property and equipment	**7,133**	7,669
Issuance of preferred stock	**196,983**	32,602
Issuance of common stock	**84,123**	3,569
Miscellaneous	**498**	694
Total Sources	**709,015**	203,478
Applications of Funds		
Dividends paid to shareholders	**33,088**	25,738
Purchase of property and equipment	**111,878**	49,543
Additions of property and equipment resulting from acquisitions	**439,431**	7,536
Additions of franchises resulting from acquisition of American Television and Communications Corporation	**31,844**	—
Acquisition of Book-of-the-Month Club book rights	**—**	4,254
Goodwill from acquisitions	**126,057**	27,493
Additions to investments	**11,451**	25,911
Repayment of long-term debt	**17,331**	14,243
Total Applications	**771,080**	154,718
Increase (Decrease) in Working Capital	**$ (62,065)**	$ 48,760

The accompanying notes are an integral part of this financial statement.
Details of increases and decreases in components of working capital are on page 36.

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NOTES TO FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements include the accounts of the Company and its significant majority-owned subsidiaries (with the exception of Lumbermen's Investment Corporation, which has not been consolidated because its mortgage banking and real-estate investment operations are dissimilar to the other operations of the Company). Unconsolidated subsidiaries and companies 20 percent to 50 percent owned are reflected in the financial statements on the equity basis. The Company's equity in their income or loss before income taxes and net income or loss, respectively, is included in Other Income—Net, with the exception of the 50 percent owned Georgia Kraft Company, which is recorded as a reduction of manufacturing costs.

Inventories. Cost of inventories amounting to $34,901,000 in 1978 and $7,604,000 in 1977 was determined by the last-in, first-out method. The cost of the remaining inventories of $161,888,000 in 1978 and $118,896,000 in 1977 was determined principally by the first-in, first-out method. All inventories are carried at either cost or market, whichever is lower.

Depreciation, Amortization, and Depletion. Depreciation of property and equipment is computed by the straight-line method over the estimated useful lives of the assets. Amortization of cable franchise costs is computed principally by the straight-line method over the lives of the franchises. Charges for timber depletion are based on the unit cost of timber harvested during the year.

Unearned Portion of Paid Subscriptions. Sales of magazine subscriptions are credited to Unearned Portion of Paid Subscriptions at the gross subscription price at the time of sale. Accounts receivable resulting from charge sales have been deducted from Unearned Portion of Paid Subscriptions. As magazines are delivered to subscribers, proportionate shares of the gross subscription price are credited to revenues. All costs in connection with the procurement of subscriptions are expensed within the year incurred.

Promotion. Promotion costs related to sales of book and record series and book clubs are amortized over a 12-month period. All other promotion costs are expensed within the year incurred.

Foreign Operations. The Company translates the financial statements of foreign operations at appropriate exchange rates. Net translation gains and losses are included in operations in the period in which they occur. Net foreign exchange gains were approximately $3,310,000 and $2,330,000 in 1978 and 1977 respectively.

Included in the consolidated financial statements are the following data for foreign operations:

Year Ended December 31	1978	1977
	(in thousands)	
Revenues	**$203,219**	$161,211
Net Income	**27,494**	19,770
Assets	**122,825**	115,777
Liabilities	**51,817**	33,373

Goodwill. Excess of purchase prices over net assets of acquired properties of $155,090,000 (net of amortization of $3,096,000) is being amortized principally over 40 years. The remaining balance of this asset is not being amortized because the related businesses were acquired prior to 1970 and, in the opinion of management, there has been no decrease in their value.

Earnings Per Share. Primary earnings per share was based on the weighted average shares of outstanding common stock during each year, plus common stock equivalents only in the fourth quarter of 1978 because their dilutive effect was immaterial prior to that time. Common stock equivalents included convertible preferred stocks outstanding from November 14, 1978, plus outstanding stock options.

Fully diluted earnings per share was based on the weighted average shares of outstanding common stock, convertible preferred stocks, and stock options during each year. Net income before preferred

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dividends was used in determining fully diluted earnings.

INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES AND COMPANIES 20 PERCENT TO 50 PERCENT OWNED

The Company's investments in the capital stock of these companies, accounted for on the equity basis, exceeded its equity in their related net assets by approximately $2,600,000 at December 31, 1978, and $11,500,000 at December 31, 1977.

The Company's 50 percent investment in Georgia Kraft Company, which was acquired as part of Inland Container Corporation in 1978, is classified as Property and Equipment since that company's underlying net assets are primarily mill operating properties and timberlands, which are the principal sources of Inland's raw material requirements. At December 31, 1978, the total assets of Georgia Kraft were $300,366,000 and total liabilities were $147,410,000. Revenue for 1978 from date of acquisition was approximately $31,252,000, and net income for the same period was $2,176,000. The Company's 50 percent equity in Georgia Kraft's net income is included as a reduction of manufacturing costs.

MARKETABLE EQUITY SECURITIES

Preferred and common stock are classified as noncurrent investments and carried at cost.

At December 31, 1978, gross unrealized gains and losses pertaining to marketable equity securities were approximately $1,794,000 and $112,000 respectively. Net realized gains on the sale of marketable equity securities of $6,291,000 and $368,000 for the years 1978 and 1977, respectively, are included in Other Income—Net. The cost of securities sold was based on specific identification of the securities sold.

ACQUISITIONS

The acquisition of Inland Container Corporation, a manufacturer of corrugated shipping containers, was completed on November 14, 1978, for approximately $272 million, which included $127.2 million in cash, 1,891,300 shares of Common Stock, and 1,891,300 shares of Series B $1.575 Convertible Preferred Stock.

The acquisition of American Television and Communications Corporation, a cable television system operator, was also completed on November 14, 1978. The Company, which previously owned approximately 26 percent of ATC's common stock, paid $17.4 million in cash and 4,185,700 shares of Series B $1.575 Convertible Preferred Stock for the remaining ATC shares. The entire transaction was valued at $179.6 million, including the pre-1978 investment of $24.4 million.

Book-of-the-Month Club, Inc., an operator of book clubs, was acquired on December 1, 1977, for approximately $64.1 million, which included $31.3 million in cash and 1,087,100 shares of Series A $1.575 Convertible Preferred Stock.

The excess of purchase price over the fair value of net underlying assets of the various acquisitions is being amortized over a 40-year period.

Each of these acquisitions was accounted for as a purchase, and respective financial results are included in the financial statements from the dates of acquisition. Below is pro forma financial information for the years ended December 31, 1978, and 1977 combining the consolidated income statements of Time Inc. and the acquisitions for each entire year.

	Year ended December 31	
	1978	1977
	(in thousands except for per share amounts)	
Revenues	**$2,153,465**	$1,822,229
Net Income (including extraordinary item):		
Total	**139,640**	111,961
Per Share	**5.00**	4.03

LEASES

Total rental expense, including contingent rentals that were not material, reduced by sublease rental income of $3,275,000 and $3,427,000, was $20,749,000 and $13,866,000 for 1978 and 1977 respectively.

The future minimum rental commitments for all non-cancellable operating leases (which are primarily for office space), reduced by an aggregate of $9,138,000 for rentals to be received from existing non-cancellable subleases at December 31, 1978,

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are as follows:

1979	$ 22,304,000
1980	18,383,000
1981	18,167,000
1982	17,721,000
1983	16,639,000
Thereafter	58,698,000
TOTAL	$151,912,000

LONG-TERM DEBT

The Company has revolving credit agreements with a group of banks for an aggregate credit of $225 million, of which $40.7 million was outstanding at December 31, 1978. These amounts are convertible into term loans.

Under the most restrictive provisions of agreements covering its loans, the Company is required to maintain minimum consolidated net current assets (as defined in the agreements) and observe limits on the payment of dividends. At December 31, 1978, consolidated net current assets were approximately $56 million in excess of these requirements, and approximately $113 million of consolidated retained income was unrestricted as to the payment of dividends.

At December 31, 1978, property and equipment of approximately $201 million was subject to liens.

Aggregate maturities of long-term debt during the next five years, including capital leases and sinking fund requirements of the first-mortgage bonds, are as follows: 1979—$30,100,000; 1980—$32,300,000; 1981—$19,200,000; 1982—$17,400,000; 1983—$25,900,000.

STOCK OPTIONS

The following summary shows the changes during 1978 and 1977 in qualified and non-qualified options granted to key employees to purchase shares of the Company's common stock, including options granted by acquired companies that were converted to options to purchase Time Common or Time Preferred Stock.

LONG-TERM DEBT (Excluding Current Portion)

	December 31	
	1978	1977
	(in thousands)	
Revolving lines of credit (Primarily prime, which was 11¾% at December 31, 1978)	**$ 40,730**	$ —
7⅞% Notes due January, 1986	**50,000**	50,000
Term loan at 7⅞% due 1979-1980	**15,000**	22,000
7.9% Promissory Notes due 1980-1994	**23,760**	—
10.95% Senior Notes due 1980-1991	**23,040**	—
8½% Senior Notes due 1980-1989	**20,400**	—
9½% Subordinated debentures due 1980-1995	**11,200**	—
6% Revenue bonds due 2001-2007	**10,000**	—
5⅜% Sinking fund first-mortgage bonds due 1985	**19,800**	23,100
6½% Mortgage notes due 1980-1990	**16,739**	17,769
Lease obligations due 1980-1992	**11,240**	4,462
Various notes, 4% to 10%, due 1980-2000	**29,386**	10,358
	$271,295	$127,689

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Shares Under Options

	Number of Shares		Price Range Per Share
	1978	1977	
Common Stock			
Balance at January 1	817,505	905,715	$14.94-$36.69
Options granted*	816,079	38,750	$20.23-$43.88
	1,633,584	944,465	—
Options exercised	(116,405)	(94,860)	$14.94-$34.38
Options surrendered	(34,250)	(20,100)	$19.35-$33.88
Options terminated	(11,280)	(12,000)	$19.35-$43.88
Balance at December 31	1,471,649	817,505	$14.94-$43.88
Preferred Stock			
Balance at January 1	20,927	—	$11.50-$19.63
Options exchanged*	215,450	20,927	$ 3.87-$20.65
Options exercised	(10,972)	—	$ 3.87-$19.63
Balance at December 31	225,405	20,927	$ 3.87-$20.65

*Options granted in 1978 include options for 9,329 shares of common stock to replace outstanding Inland Container stock options. The outstanding stock options of ATC were exchanged for options for 215,540 shares of preferred stock. Options exchanged in 1977 include options for 20,927 shares of preferred stock to replace outstanding Book-of-the-Month Club options.

There were 239,050 common shares and 34,575 common shares available for the granting of options at December 31, 1978 and 1977 respectively. There were no preferred shares available for the granting of options at December 31, 1978 or 1977.

Options granted for common and preferred shares are exercisable at various dates, but no later than five years from date of grant in the case of qualified options and no later than 10 years from date of grant in the case of non-qualified options. Options for 717,140 common shares and 562,610 common shares were exercisable at December 31, 1978 and 1977 respectively.

Options for 95,980 preferred shares and 20,927 preferred shares were exercisable at December 31, 1978 and 1977 respectively.

Option prices, which are not less than 100 percent of fair market value on dates of grant, are payable in full at the time the options are exercised. There were no charges or credits to income in connection with options exercised.

TAXES ON INCOME

Federal, foreign, and state and local taxes on income before extraordinary item consisted of the following:

	1978		1977	
	Current	**Deferred**	Current	Deferred
	(in thousands)			
Federal	**$66,143**	**$11,320**	$52,371	$4,784
Foreign	**9,219**	**(192)**	7,121	196
State and Local	**8,510**	**—**	6,928	—
	$83,872	**$11,128**	$66,420	$4,980

The differences between the consolidated effective income tax rate of 44.4 percent in 1978 and 44.1 percent in 1977 and the federal statutory income tax rate of 48 percent include the following:

	1978	1977
	(in thousands)	
48% of income before taxes	**$102,730**	$77,731
Investment tax credits	**(5,752)**	(3,321)
Tax benefit of capital gains, mainly from the harvesting and sale of fee-owned timber	**(5,575)**	(3,859)
All other	**3,597**	849
	$ 95,000	$71,400

The Company plans to continue to finance its operations in foreign countries by retention in such countries of a substantial portion of undistributed earnings of its foreign subsidiaries. The amount of unremitted earnings considered permanently reinvested for such purpose at December 31, 1978, was approximately $27 million after reduction for available foreign tax credits.

Deferred income taxes have been provided because of the following timing differences:

	1978	1977
	(in thousands)	
Accelerated depreciation	**$ 5,773**	$3,553
All other	**5,355**	1,427
	$11,128	$4,980

Investment tax credits have been accounted for primarily as reductions in current income tax expense.

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The LIFO tax basis of inventories of a subsidiary is $8,637,000 less than the amount reported in the consolidated financial statements owing to the allocation of purchase price.

OTHER INCOME—NET

Other Income—Net consisted of the following:

	1978	1977
	(in thousands)	
Dividends	$ 1,338	$ 2,316
Interest income	9,008	8,770
Interest expense	(12,492)	(10,430)
Net realized gain on securities	6,291	368
Equity in net income of companies 20% to 50% owned	5,633	1,821
Equity in income before taxes of unconsolidated subsidiaries	3,897	2,696
Royalties and ancillary sales	3,919	3,638
Gain (loss) on sale of land, property and equipment	(983)	1,896
Litigation expenses	(3,100)	—
Provision for losses on investments	—	(1,717)
Miscellaneous	1,220	315
	$14,731	$ 9,673

EXTRAORDINARY ITEM

Approximately 27,000 acres of the Company's timberlands have been designated for inclusion in the national preserve created by the Big Thicket Preserve Act, which was signed into law in 1974. The Company expects to be compensated for all land taken for this preserve at fair market value.

Prior to December 31, 1977, proceeds received from the condemnations were applied to the cost of the replacement acreage, which did not result in recognition of income to the Company. In 1978, the Securities and Exchange Commission required gains from involuntary conversions to be included in the income statement. As a result, the Company's 1978 gain from involuntary conversions of $9,602,000, less taxes of $2,881,000, was recorded as an extraordinary item in 1978.

PENSION PLANS

The Company and its subsidiaries have several pension plans covering substantially all employees, including those in foreign countries. Total pension expense was approximately $14.5 million in 1978 and $8.1 million in 1977, which includes amortization of past service cost over periods ranging from 10 to 30 years. The Company's policy is to fund pension cost accrued.

In 1978 the Company amended several of its plans and changed certain actuarial assumptions, which had the effect of increasing pension expense by approximately $5 million. As a result of acquisitions made during the year, pension expense increased by $800,000.

As of the most recent valuation dates, the actuarially computed value of vested benefits under the pension plans exceeded the market value of total fund assets of such plans and balance sheet accruals by approximately $5.7 million in 1978. In 1977, the market value of fund assets exceeded vested benefits.

COMMITMENTS AND CONTINGENCIES

During 1977 and 1978, Inland Container Corporation was named in approximately 57 civil complaints, including numerous class actions, which allege that Inland, other defendants, and others engaged in a continuing combination and conspiracy to fix, raise, maintain, and stabilize the prices of corrugated containers in violation of the Sherman Act. On July 10, 1978, Inland was served with a complaint as one of numerous defendants in a class action filed in Spartanburg County, South Carolina, alleging a conspiracy among defendants to fix, maintain, and stabilize prices of corrugated containers and sheets in violation of South Carolina statutes and seeking $200 million damages. Inland has reached an agreement in principle with counsel representing a very substantial class of plaintiffs referred to in the first sentence who purchased corrugated containers or corrugated sheets from Inland during the period from January 1, 1960, to January 25, 1978, to settle, subject to court approval, for an aggregate payment of not in excess of $34,627,500 and conditioned upon not in excess of the settling class of plaintiffs representing a specified percentage in aggregate dollar sales by Inland electing not to accept such settlement and, as a consequence, a certain number of such plaintiffs representing a lesser specified aggregate dol-

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lar sales by Inland electing to institute independent civil actions asserting antitrust claims against Inland. Includible in the group of plaintiffs that are not settling are purchasers of corrugated sheets, which accounted for approximately 6 percent of Inland's total sales in dollars during 1973 to 1976, inclusive, and a few substantial purchasers of corrugated containers. Inland is also a defendant in a

BUSINESS SEGMENT INFORMATION

Refer to "Lines of Business" on page 29 for information relating to revenues and income (loss) before taxes on income of the Company's principal lines of business.

Below is additional information required by FASB Statement No. 14:

	Year Ended December 31, 1978			Year Ended December 31, 1977		
	Identifiable Assets at December 31, 1978	Depreciation, Depletion, and Amortization	Capital Expenditures*	Identifiable Assets at December 31, 1977	Depreciation, Depletion, and Amortization	Capital Expenditures
			(in millions)			
Lines of Business						
Publishing:						
Magazines	$ 85.1	$ 2.1	$ 4.9	$ 86.0	$ 1.5	$ 2.2
Books	296.1	2.4	3.1	246.2	1.1	2.2
Forest Products:						
Pulp and paperboard	209.6	13.3	33.7	197.8	14.9	20.4
Building materials	159.5	9.5	41.9	123.1	8.8	12.5
Container and containerboard	237.4	1.2	144.0	—	—	—
Video	377.1	8.1	123.3	82.0	4.7	5.5
Other Activities	118.5	4.4	25.8	82.9	2.8	5.8
Corporate	112.6	.6	2.9	189.9	0.4	0.9
Investment in unconsolidated subsidiaries and companies 20% to 50% owned	205.5	—	171.7	45.4	—	—
	$1,801.4	$41.6	$551.3	$1,053.3	$34.2	$49.5

*Container and containerboard and Video include $137.8 million and $109.8 million resulting from the acquisitions of Inland Container Corporation and American Television and Communications Corporation, respectively. Amount in investment in unconsolidated subsidiaries and companies 20 percent to 50 percent owned is the acquired interest in Georgia Kraft Company.

	Year Ended December 31, 1978				Year Ended December 31, 1977			
	U.S.	Foreign Countries	Eliminations	Consolidated	U.S.	Foreign Countries	Eliminations	Consolidated
				(in millions)				
Sales to unaffiliated customers	$1,494.4	$203.2	—	$1,697.6	$1,088.6	$161.2	—	$1,249.8
Transfers between geographic areas	7.0	6.0	$(13.0)	—	6.0	4.6	$(10.6)	—
Revenues	$1,501.4	$209.2	$(13.0)	$1,697.6	$1,094.6	$165.8	$(10.6)	$1,249.8
Operating Profit	$ 185.0	$ 38.2	—	$ 223.2	$ 145.3	$ 26.5	—	$ 171.8
Identifiable Assets	$1,360.5	$122.8	—	$1,483.3	$ 702.1	$115.8	—	$ 817.9

Intersegment sales are accounted for at prices that are approximately arm's-length market prices. The only significant investment in vertically integrated unconsolidated subsidiaries and other equity method companies is the 50 percent interest in Georgia Kraft Company, identified with the container and containerboard line of business. Details of the investment and the Company's equity in its net income are given elsewhere in these notes.

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class action filed by Franklin Container Corporation and Tim-Bar Paper Company alleging that Inland and fourteen other companies conspired to restrain the manufacture, distribution, and sale of kraft linerboard and corrugated containers and to monopolize the manufacture and sale of corrugated boxes in the United States in violation of the Sherman Act.

At the time of the Company's acquisition of Inland Container Corporation, a provision was made for this liability. Therefore, the settlement had no material impact on earnings in 1978, and management does not anticipate any material impact on future earnings.

In addition, there were pending against the Company and its subsidiaries lawsuits and claims arising in the regular course of business.

In the opinion of management, recoveries, if any, by plaintiffs or claimants that may result from the foregoing litigation and claims will not be material in relation to the consolidated financial position of the Company and its subsidiaries.

ASSET REPLACEMENT COST (UNAUDITED)

The Company's Annual Report on Form 10-K (a copy of which is available upon request) contains information with respect to the estimated replacement cost of inventories, plant and equipment, and timberlands at December 31, 1978 and 1977 and the approximate effect of such costs on cost of sales and depreciation expense for those years.

Replacing items of plant and equipment with assets having equivalent productive capacity has usually required a substantially greater capital investment than was required for the original purchase of such assets. This reflects the cumulative impact of inflation on the long-lived nature of these assets. This inflationary increase has been somewhat offset by technological improvements, which have resulted in increasing the productivity of the newer asset additions.

The Company's timberlands were acquired some years ago. Prices of comparable timberlands (when available) today are substantially higher than original cost.

The Company has attempted to adjust selling prices to maintain profit margins over the years and will continue this practice.

SUMMARY OF QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following is a summary of the unaudited quarterly results of operations for the years ended December 31, 1978 and 1977:

	Three Months Ended			
	Mar. 31	June 30	Sept. 30	Dec. 31
1978	(In thousands except for per share amounts)			
Revenues	**$343,455**	**$404,485**	**$407,675**	**$541,970**
Gross Profit	**128,746**	**151,631**	**157,826**	**199,067**
Income before extraordinary item	**21,433**	**34,487**	**26,009**	**37,092**
Extraordinary item, net of taxes	**—**	**6,721**	**—**	**—**
Net Income	**21,433**	**41,208**	**26,009**	**37,092**
Earnings per share*				
Primary				
Income before extraordinary item	**1.03**	**1.65**	**1.25**	**1.54**
Net income	**1.03**	**1.98**	**1.25**	**1.54**
Fully diluted				
Income before extraordinary item	**1.00**	**1.60**	**1.20**	**1.51**
Net income	**1.00**	**1.90**	**1.20**	**1.51**
1977				
Revenues	$267,950	$311,236	$303,145	$367,485
Gross Profit	103,699	120,295	98,148	151,915
Net Income	15,045	25,142	19,359	30,993
Earnings per share				
Primary	.74	1.24	.95	1.51
Fully diluted	.73	1.22	.94	1.48

*The sum of earnings per share for the four quarters does not equal annual earnings per share because of the significant amount of stock issued during the fourth quarter.

Report of Ernst & Ernst, Independent Auditors

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF TIME INCORPORATED

We have examined the consolidated balance sheets of Time Incorporated and subsidiaries as of December 31, 1978 and 1977, and the related consolidated statements of income, shareholders' equity and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Time Incorporated and subsidiaries at December 31, 1978 and 1977, and the consolidated results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Ernst & Ernst

E&E

New York, New York
February 15, 1979

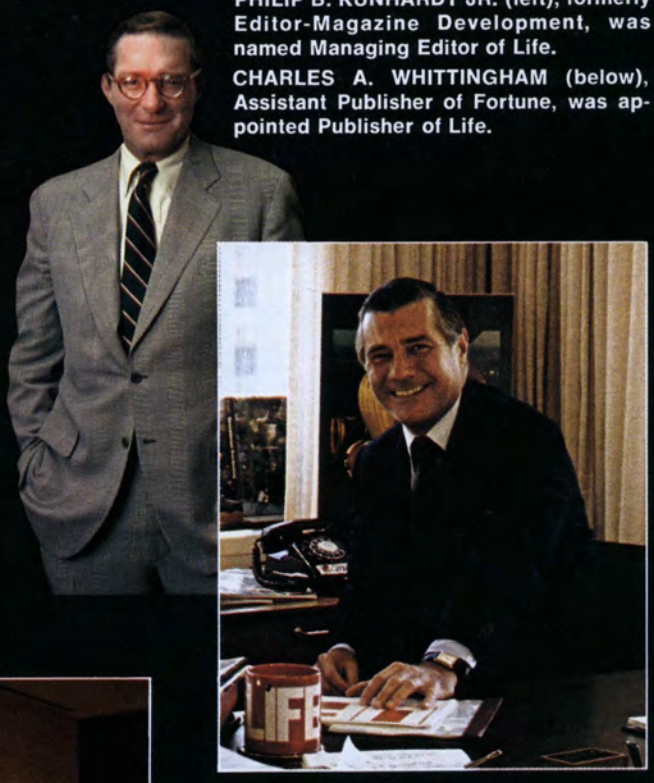
NEW APPOINTMENTS



JOHN A. MEYERS, Vice President and Publisher of Sports Illustrated, was named Publisher of Time magazine.

PHILIP B. KUNHARDT JR. (left), formerly Editor-Magazine Development, was named Managing Editor of Life.

CHARLES A. WHITTINGHAM (below), Assistant Publisher of Fortune, was appointed Publisher of Life.





HEDLEY DONOVAN (center), Editor-in-Chief of Time Inc. since 1964, announced his intention to retire June 1, 1979. The Board has designated HENRY A. GRUNWALD (left) as his successor and RALPH GRAVES (right) as Editorial Director and Grunwald's deputy.

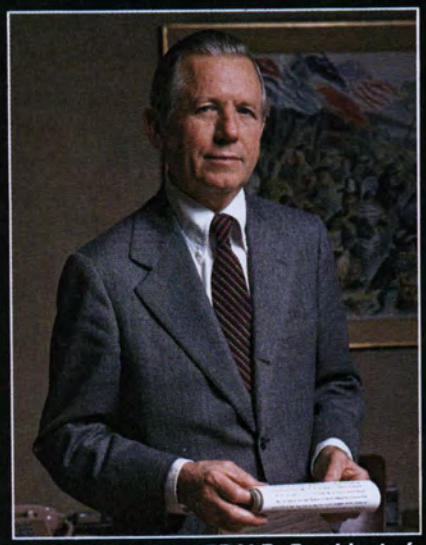


MONROE M. RIFKIN, Chairman and President of American Television and Communications Corporation, was elected a Vice President of Time Inc.

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RALPH P. DAVIDSON, Vice President and Publisher of Time since 1972, was assigned to the Office of the President.



EDWARD E. FITZGERALD, President of Book-of-the-Month Club, was elected a Vice President of Time Inc.

KEVIN L. DOLAN (right) succeeded Bishop as Comptroller and Assistant Secretary.



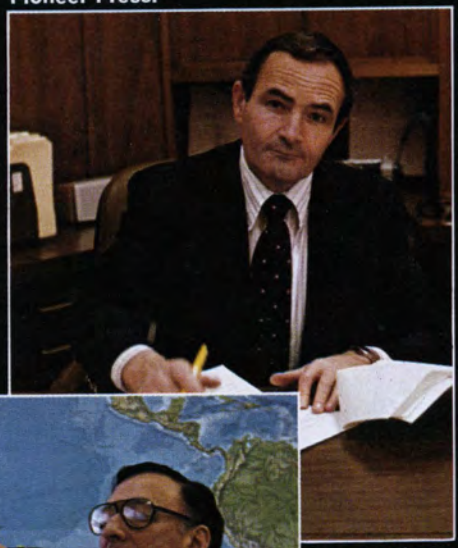
KELSO F. SUTTON, Vice President—Magazines, became Publisher of Sports Illustrated.





WILLIAM E. BISHOP (above), Comptroller and Assistant Secretary, was elected a Vice President and deputy to Chief Financial Officer Richard B. McKeough.

DAVID C. SIMONSON (below), Publisher of Pioneer Press, was elected President of Pioneer Press.





JOE C. DENMAN JR., President of Temple-Eastex Inc., was named a Group Vice President.



GEORGE W. HOYT (far left), President of Pioneer Press, was appointed Publisher of the Washington *Star*. MURRAY J. GART (left), Chief of Correspondents of the Time-Life News Service, was appointed Editor of the *Star*.

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SCRATCHING SOCIETY'S BACK—AND OUR OWN

In the nature of annual reports, these pages contain a great many figures. Yet I want to add one more—$1,947,000, the amount Time Inc. and its subsidiaries contributed last year to carefully selected organizations and institutions all across the country.

Like revenue and income, that figure is another record, and one in which the Board of Directors and I take considerable pride.

In a broad perspective, corporate giving is an investment in making our society work. For if it fails, we cease to exist. More narrowly, unless we communicate our sense of connection to the communities where we do business, we will find it more difficult and consequently more expensive to operate.

Equally important, if we should forfeit the respect of our employees by refusing to give, we would reduce our efficiency. People work more productively in a company in which they take pride. Increasingly, too, the best of them are attracted overwhelmingly to such companies.

As with private giving, tax laws encourage corporate contributions. Beyond that we can and do utilize the money more efficiently than government. Business enjoys a relative flexibility which enables it to give to nonprofit organizations that can invent and innovate in a way that government, with a huge rulebook, can seldom match. Many significant changes in America, in education and civil rights among others, have received their initial impetus from corporate and private giving.

Corporate contributions—ours and others—also help preserve a distinctive feature of the American landscape, its pluralism. Our country is dotted with thousands of nonprofit organizations that support education, public welfare, and the arts. Such organizations are found far less frequently in Europe. They do not exist in authoritarian societies.

The largest segment of our corporate giving is determined by our employees. Each dollar they give to hundreds of qualified educational institutions and cultural organizations is matched by the company, up to certain limits, on a two-for-one basis. Through this matching grant program in 1978 we gave such amounts as $20 to a ballet company in New York City, $500 to a symphony orchestra in Texas, $100 to a college in Wisconsin, and $1,100 to a university in Indiana.

Other than matching grants, we channel our contributions into three principal areas: education, civic welfare, and arts and culture. In the immediate future environmental concerns will receive additional emphasis. Appropriately enough for a company that depends so much on knowledgeable, thoughtful people, higher education gets the biggest share. In every area we carefully weigh the need, the alternatives, and the expected return.

If there are sound, even selfish, reasons for our corporate contributions, there is another overriding one. For many years Time Inc. publications have been expected not just to pay a competitive return but to advance the public interest. In our forest products operations our policy has long been to cut and replant rather than cut and run. In short, we have a commitment, a concern for society and for those on the fringes of it.

Like an individual, a corporation in order to function effectively requires self-respect. There are short-term exceptions. We are a long-term company.

Andrew Heiskell

BOARD OF DIRECTORS



Heiskell



Shepley

Andrew Heiskell, Chairman of the Board and Chief Executive Officer. Elected to the Board in 1959.

James R. Shepley, President and Chief Operating Officer. Elected to the Board in 1969.

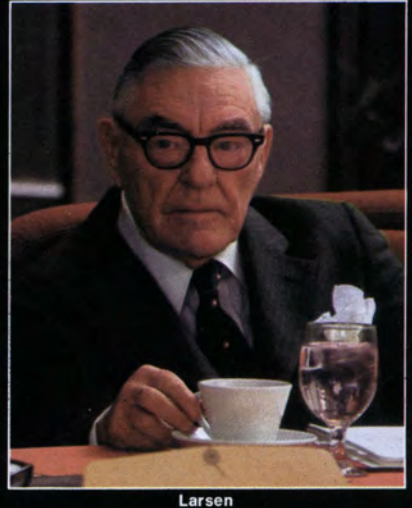
Henry Luce III, Vice President. Elected to the Board in 1967.

Roy E. Larsen, Vice Chairman of the Board. Elected to the Board in 1933.

Louis L. Banks, Adjunct Professor of Management, Alfred P. Sloan School of Management, Massachusetts Institute of Technology. Elected to the Board in 1973.



Luce



Larsen



Banks



Donovan Kearns

Hedley Donovan (far left), Editor-in-Chief, Time Inc. Elected to the Board in 1962.

David T. Kearns, President and Chief Operating Officer, Xerox Corporation. Elected to the Board in 1978.



Manley



Goodrich



Bear



Temple

Joan D.Manley, Group Vice President. Chairman, Time-Life Books Inc. Elected to the Board in 1978.

Henry C. Goodrich, Vice President. Chairman and Chief Executive Officer, Inland Container Corporation. Elected to the Board in 1978.

Charles B. Bear, Group Vice President and Secretary. Elected to the Board in 1977.

Arthur Temple, Vice Chairman of the Board and Chairman, Temple-Eastex Inc. Elected to the Board in 1973.



Linowitz

Heard

Sol M. Linowitz, Senior Partner, Coudert Brothers. Elected to the Board in 1969.

Alexander Heard, Chancellor, Vanderbilt University. Elected to the Board in 1968.

J. Richard Munro, Group Vice President. Elected to the Board in 1978.

Arthur W. Keylor, Group Vice President. Elected to the Board in 1972.

Robert T. Keeler, Partner, Taft, Stettinius & Hollister. Elected to the Board in 1975.

Thomas J. Watson Jr., Chairman of the Executive Committee of the Board of Directors, International Business Machines Corporation. Member of the Board 1958-65, reelected 1974.



Munro



Keylor



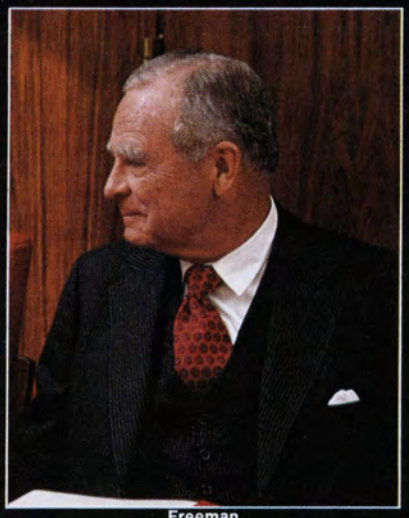
Keeler



Watson



Horner



Freeman



Pace

Bere



McKeough



Dingman

Matina S. Horner, President, Radcliffe College. Elected to the Board in 1975.

Gaylord Freeman, Honorary Chairman of the Board, The First National Bank of Chicago. Elected to the Board in 1962.

Frank Pace Jr., President and Chief Executive Officer, International Executive Service Corps. Elected to the Board in 1960.

James F. Beré, Chairman and Chief Executive Officer, Borg-Warner Corporation. Elected to the Board in 1978.

Richard B. McKeough, Vice President —Finance. Elected to the Board in 1973.

Michael D. Dingman, Chairman, President, and Chief Executive Officer, Wheelabrator-Frye Inc. Elected to the Board in 1978.

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ANNUAL MEETING
Thursday, April 19, 1979, 11 A.M.
Time & Life Building
Rockefeller Center, New York, N.Y.

CORPORATE HEADQUARTERS
Time & Life Building
Rockefeller Center
New York, N.Y. 10020
Phone: 212-JU6-1212

TRANSFER AGENT
The Chase Manhattan Bank, N.A.
One New York Plaza
New York, N.Y. 10015

REGISTRAR
Chemical Bank
20 Pine Street
New York, N.Y. 10015

CO-TRANSFER AGENT AND REGISTRAR (common stock only)
Republic National Bank of Dallas
P.O. Box 2964
Dallas, Texas 75221

COMMON STOCK PERFORMANCE AND DIVIDEND COMPARISON 1978 AND 1977
(New York Stock Exchange—Symbol: TL)
(London Stock Exchange—Symbol: TIMEINC)

PRICE RANGE		Low	High
1978	First Quarter	33¾	40⅛
	Second Quarter	39⅛	49
	Third Quarter	40	50¾
	Fourth Quarter	37⅝	49
1978	**YEAR**	**33¾**	**50¾**
1977	First Quarter	33	38¼
	Second Quarter	32	37¼
	Third Quarter	31⅜	38⅛
	Fourth Quarter	31⅜	39½
1977	**YEAR**	**31⅜**	**39½**

DIVIDENDS		1978	1977
	First Quarter	$ .325	$ .2875
	Second Quarter	.375	.325
	Third Quarter	.375	.325
	Fourth Quarter	.375	.325
	YEAR	**$1.45**	**$1.2625**

PREFERRED STOCK PERFORMANCE 1978 AND 1977
Series A
(New York Stock Exchange—Symbol: TLPRA)

PRICE RANGE		Low	High
1978	First Quarter	29⅛	32½
	Second Quarter	31¾	38½
	Third Quarter	31¾	36½
	Fourth Quarter	28⅝	35½
1978	**YEAR**	**28⅝**	**38½**
1977	Fourth Quarter	29	31⅞

Series B
(New York Stock Exchange—Symbol: TLPRB)

PRICE RANGE		Low	High
1978	Fourth Quarter	28⅜	32

Dividend rate for both Series A and Series B is $1.575. Preferred stock is not listed on the London Exchange.

Questions and communications regarding lost stock certificates, changes of address, dividend checks, consolidation of accounts, and transfer of certificates should be sent to: The Chase Manhattan Bank, N.A. Shareholder Services Division, 15th Floor, 1 New York Plaza, New York, N.Y. 10015.

Copies of SEC Form 10K will be available to stockholders after April 30, on written request to Carolyn K. McCandless, Assistant Secretary, Time Inc., Time & Life Building, Rockefeller Center, New York, N.Y. 10020.

RED (TAPE) ALERT

A leading economist recently suggested that "the price the American people are asked to pay for regulations should not exceed the benefits they get from them." If that sensible rule were applied, of course, the American people would either be paying much less or receiving much more, for by some estimates they are paying on the order of $100 billion a year for all forms of regulation. The cost of paperwork alone is often placed as high as $40 billion. While such estimates are necessarily rough—and undoubtedly often exaggerated—the benefits being realized from government regulation are not commensurate with the price currently being paid for them.

In fact, a growing number of responsible people, including some in government, are becoming deeply concerned about the rising volume of regulation and its strangulating effect upon the economy. There are now some 90 different federal agencies issuing regulations and requiring some 4,000 different forms to be filled out by business alone. The federal Office of Management and Budget estimates that businessmen spend 138 million man-hours annually completing just the forms that OMB supervises.

The red tape has got so tangled that the largest retail firm in the U.S. is currently suing the federal government and ten of its regulatory agencies, contending that it is virtually impossible to comply with their conflicting requirements. Things have reached the point, in fact, where one constitutional scholar, Alpheus T. Mason of Princeton, fears that the U.S. is experiencing a major political power crisis, and that the clash between the expanding federal bureaucracy and the taxpaying electorate could actually destroy our system of government if the confrontation is not resolved.

Proposition 13 was a cry of taxpayer anguish, but it at least evoked some response. A similar outcry against regulation and paperwork may well be in order. Certainly there are those in government who claim to be sympathetic, and even a few who are attempting to do something about the regulatory quagmire. Just last month U.S. Budget Director James T. McIntyre predicted "the most sweeping changes in regulatory management in our nation's history." As McIntyre put it, "The withdrawal symptoms from air transport regulation turned out to be higher profits and lower fares."

On the other hand, protestations are more easily made than progress. In 1974 Congress established the Commission on Federal Paperwork. It hired a staff of 180, held a number of hearings, issued a report—and went out of business, without any discernible diminution in the flow of paper.

Time Inc. is more fortunate than many companies. It is not required, except in its forest operations, to contend with many of the more complex and burdensome environmental and health regulations. And yet Time Inc.'s bill for paperwork and complying with government regulation is in the range of $12 million to $15 million per year. This is a consequential sum, equivalent to approximately half the amount paid out to our common stockholders in dividends last year. We think some of that money could be put to better use.

James R. Shipley

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OFFICERS

Andrew Heiskell
Chairman of the Board and Chief Executive Officer
Roy E. Larsen
Vice Chairman of the Board
Arthur Temple
Vice Chairman of the Board
James R. Shepley
President and Chief Operating Officer
Charles B. Bear
Group Vice President and Secretary
Joe C. Denman Jr.
Group Vice President
Arthur W. Keylor
Group Vice President
Joan D. Manley
Group Vice President
J. Richard Munro
Group Vice President
Richard B. McKeough
Vice President—Finance

Donald M. Wilson
Vice President—Corporate and Public Affairs
William E. Bishop
Vice President
Ralph P. Davidson
Vice President
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Vice President
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Vice President
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Robert M. Steed
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Vice President
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Assistant Treasurer
J. Winston Fowlkes
Assistant Treasurer
Kevin L. Dolan
Comptroller and Assistant Secretary
Eugene F. Farro
Assistant Comptroller
Carolyn K. McCandless
Assistant Secretary

CORPORATE EDITORIAL EXECUTIVES

Hedley Donovan
Editor-in-Chief
Ralph Graves
Corporate Editor
Henry A. Grunwald
Corporate Editor

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Group Vice President
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Ray Cave
Managing Editor, Time
Clifford J. Grum
Publisher, Fortune
Robert Lubar
Managing Editor, Fortune
Kelso F. Sutton
Publisher, Sports Illustrated
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Managing Editor, Sports Illustrated
John U. Crandell
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Managing Editor, Money
Richard J. Durrell
Publisher, People
Richard B. Stolley
Managing Editor, People
Charles A. Whittingham
Publisher, Life
Philip B. Kunhardt Jr.
Managing Editor, Life
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Lawrence M. Crutcher
Director of Circulation
James J. McCluskey
Director of Manufacturing and Distribution
Ira R. Slagter
Director of Subscription Service
Eileen Mulcahy
Administrator

FOREST PRODUCTS EXECUTIVES

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Vice Chairman of the Board, Time Inc.

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President and Chief Executive Officer
David H. Dolben
Vice President—Finance and Treasurer
Ward R. Burke
Vice President and General Counsel
Gex P. Condit
President, Eastex Division
Henry H. Holubec Jr.
President, Temple Division
Kenneth Nelson
President, Forests Division
W. Ray Frye
Chairman, AFCO Industries, Inc.
Wayne McDonald
Chairman, Lumbermen's Investment Corp.
Don V. Hackney
President, Temple Associates

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Chairman and Chief Executive Officer
Clinton G. Ames Jr.
President
B. J. Lancashire
Executive Vice-President—Operations
U. L. Uebelhoer
Senior Vice President—Finance and Administration

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E. Thayer Bigelow
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Thomas M. Girocco
President and General Manager, WOTV
Gerald M. Levin
Chairman, Home Box Office, Inc.
N. J. Nicholas Jr.
President, Home Box Office, Inc.
Bruce L. Paisner
President, Time-Life Films, Inc.
Monroe M. Rifkin
Chairman and President
American Television and Communications Corp.

BOOK EXECUTIVES

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Chairman, Time-Life Books Inc.
Edward E. Fitzgerald
President, Book-of-the-Month Club, Inc.
John D. McSweeney
President, Time-Life Books Inc.
Jerry Korn
Managing Editor, Time-Life Books Inc.
Zachary P. Morfogen
Managing Director, Books and Arts Associates
Herbert D. Schutz
President, New York Graphic Society Ltd.
Arthur H. Thornhill Jr.
Chairman and President, Little, Brown and Company (Inc.)
Richard H. Walker
President, Alva Museum Replicas, Inc.

EXECUTIVES OF OTHER ACTIVITIES

Charles B. Bear
Group Vice President
Robert J. Edmondson
President, Printing Developments, Inc.
David Simonson
President and Publisher, Pioneer Press Inc.
Peter S. Hopkins
Vice President, Real Estate
John A. Watters
President, Selling Areas-Marketing, Inc.
George W. Hoyt
Publisher
The Washington Star
Murray J. Gart
Editor
The Washington Star

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