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TIME INCORPORATED

1981 ANNUAL REPORT



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TIME INCORPORATED

A diversified company in the publishing, forest products, and video fields

PUBLISHING

Magazines

Time
Sports Illustrated
People
Fortune
Life
Money
Discover

Books

Time-Life Books
Book-of-the-Month Club
Little, Brown

Other Activities

Selling Areas-Marketing, Inc. (SAMI)
Pioneer Press

FOREST PRODUCTS

Temple-Eastex
Inland Container
Lumbermen's Investment Corp.
AFCO Industries
Temple Associates
Eastex Packaging
Georgia Kraft (50%)

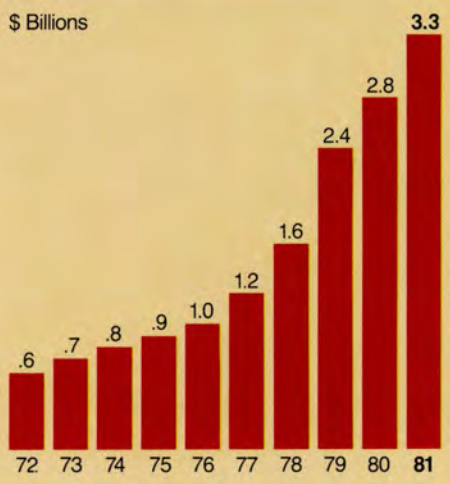
VIDEO

American Television and Communications
Home Box Office
WOTV
Time-Life Video

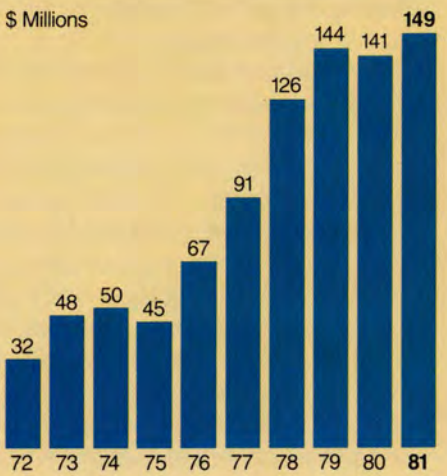
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Total Revenues



Net Income



FINANCIAL HIGHLIGHTS

	1981	1980
	(in thousands except for per share data)	
Revenues	**$3,296,382**	$2,800,013
Income from Continuing Operations	**184,568**	162,073
Net Income	**148,821**	141,203
Capital Expenditures	**404,000**	261,000
Per Share:		
Income from Continuing Operations	**$ 3.02**	$ 2.88
Net Income	**2.43**	2.51
Dividends per common share	**.95**	.8825
Price Range (Common Stock)	**26⅝-41⅜**	19-31 9/16
Common shares outstanding (000)	**49,765**	46,561

The number of common shareholders of record as of February 1, 1982, was 13,557.

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LETTER TO SHAREHOLDERS



During the 1970's, Time Inc. not only expanded its publishing activities but also made tremendous strides in diversifying its operations, ending the decade as a truly broad-based communications and natural resource company. Last year, as the new decade began, the benefits of this diversification program were becoming evident. We were able to report record earnings in a recessionary year, despite the fact that several of our operations had disappointing earnings.

In further pursuit of our diversification program, we undertook record capital expenditures last year, with a large share of the outlay going to the Video Group, primarily for the expansion of cable television operations. We also felt it was in our shareholders' best interest to discontinue two activities—Time-Life Films, which produced feature motion pictures and television programs, and *The Washington Star,* our daily newspaper in Washington, D.C.

We are now a participant in three major industries: publishing, video, and forest products. Last year Time Inc. subsidiaries in all three of these fields contributed to the Company's growth in revenues and profits, and a surprising number of operating divisions turned in record performances, despite the state of the economy.

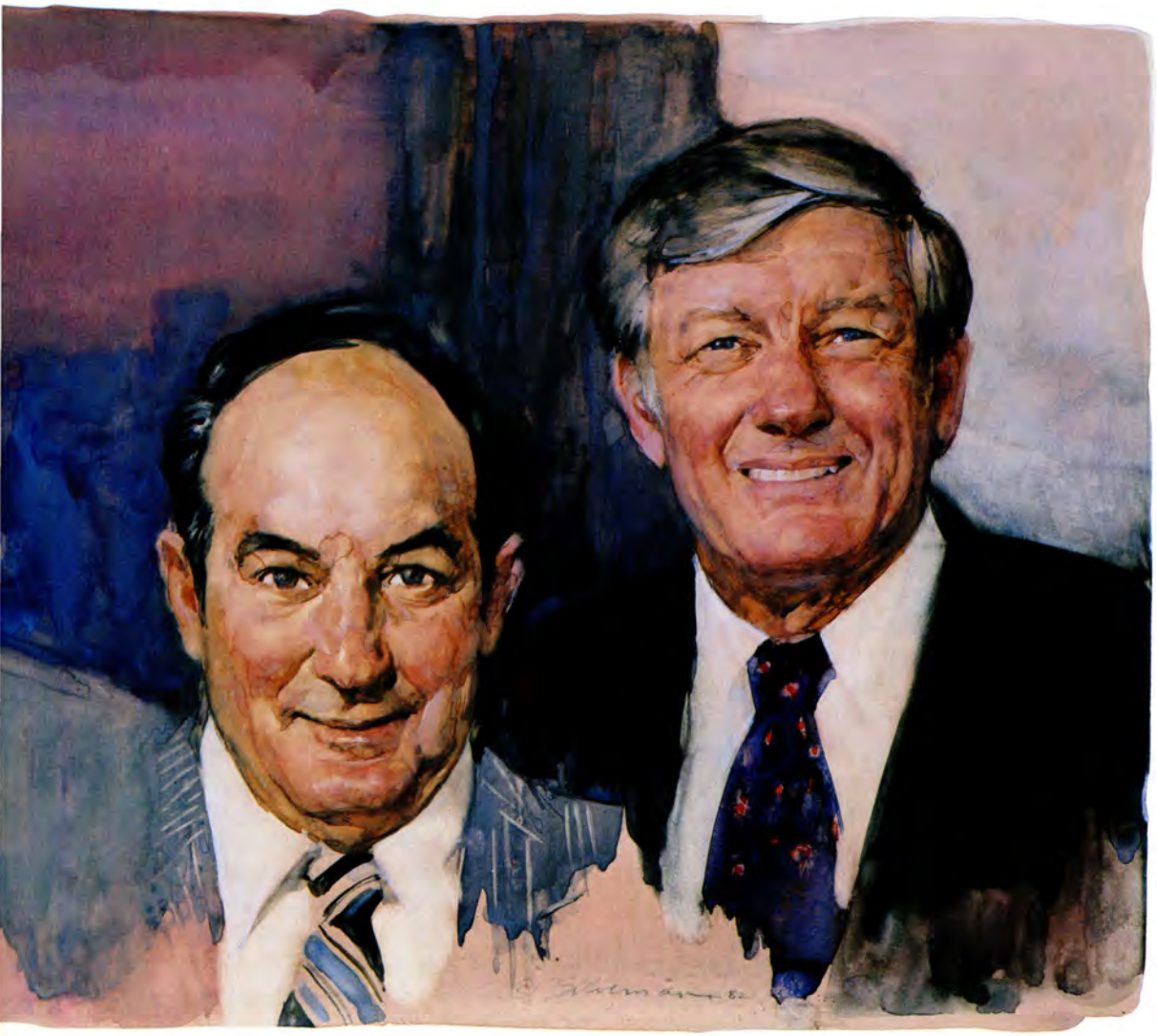
Video

Our fastest growing operation in recent years has been the Video Group. Time Inc. companies now rank No. 1 in both the cable and the pay-television businesses. American Television and Communications Corp. (ATC) is the largest cable television system operating company, while Home Box Office (HBO) is the largest pay-TV programming service. Both of these companies grew impressively in 1981, ATC increasing its subscriber count to more than 1.8 million, and HBO adding more than two million subscribers for an increase of nearly 40 percent and a universe of more than 8.5 million homes.

Cinemax, a second pay service launched in 1980, performed even more spectacularly. By the end of 1981, after less than 18 months, Cinemax was serving more than a million subscribers in over 600 cable systems.

Having taken an early lead in the cable and pay-TV businesses, we are now actively exploring other opportunities in the video field. Last summer, for example, we acquired a one-third interest in the USA Network, an advertiser-supported cable program service that reaches about 10 million homes. Our equal partners in this venture are two major entertainment companies, Paramount and

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(from the left)
J. Richard Munro,
president and
chief executive officer;
Clifford J. Grum,
executive vice president;
Ralph P. Davidson,
chairman of the board.

MCA. Not only does the USA Network give us a strong entrée to the television advertising market, it may also eventually serve as a vehicle for going down yet another video profit path—marketing programs on a pay-per-view basis.

We are experimenting with many non-entertainment applications of cable, such as home security systems, energy controls, shopping by cable, electronic banking and ticket buying. One such service that we will begin field-testing this year is a form of teletext in which thousands of "pages" of useful textual and graphic information, ranging from hard news to leisure guides, will be made available to subscribers on a call-up basis.

We also anticipate further growth from both ATC and HBO in the coming decade. For the past ten years ATC has concentrated on acquiring and developing cable franchises. In the next ten it will continue these efforts, but more emphasis will be placed on marketing new and additional services to an expanding base of cable customers. HBO will continue its innovative ways and strive to stay in the forefront of the pay-TV programming industry.

Five years ago, it is worth recalling, Time Inc.'s video operations were still in the developmental stage and barely breaking even. In 1981, Video caught up with our other major groups as a contributor to operating income, and in 1982 it will probably become the largest profit source of all.

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Publishing

Our magazines had an exceptionally good year in 1981. Their operating profits rose 81 percent to a record $102 million on revenues of $870 million.

Our advertising revenues should continue to grow as magazines are increasingly recognized as the most cost-efficient method of promoting the sale of a wide variety of consumer products. As the television dial offers an ever larger and more varied menu of programs, there will be more fractionating of the television audience, including more viewership of pay channels without any advertising. Commercial television will no longer offer the concentration of viewers it does today.

Magazine advertising will increasingly be perceived as a better buy. Magazines generally have already benefited from this trend and Time Inc.'s have fared particularly well. Today nearly one of every five magazine dollars goes to Time Inc.'s publications.

The continuing circulation growth of our magazines is a reflection of their enduring vitality. Our flagship magazine, *Time*, shows no signs of aging; one issue of *Time* last year carried over $10 million of advertising, an all-time record for any weekly magazine. We have raised both the single copy and subscription prices of all our publications in recent years and our readers have accepted these higher prices. Our circulation revenues consequently have risen even faster than our advertising revenues, and subscription renewals remain strong.

The Magazine Group's bravura performance last year more than made up for a sharp decline in the earnings of our Books Group. Little, Brown had a good year in 1981 and Book-of-the-Month Club did extremely well, but Time-Life Books had a very bad year. TLB, one of the world's largest marketers of books by mail, was seriously affected by the recessionary economy, the adverse impact of currency exchange rates on its foreign sales, which now account for more than half its revenues, and by the fact that a major new series introduced during the year did not sell as well initially as expected. While we are not happy about the current hiatus in our Books Group's growth, we are reassessing the marketing and editorial policies of this major subsidiary and feel confident the present downtrend in its earnings will be reversed.

Forest Products

Our Forest Products Group turned in a remarkably strong performance in 1981, particularly in view of the virtual collapse of the U.S. housing market. Our building products operations actually showed a small profit in 1981 as compared with a loss the previous year, and our two paper operations did exceptionally well.

The Forest Products Group as a whole, consequently, turned in profits of $107 million in 1981 on revenues of $1.2 billion. The group's profits were up a healthy 22 percent and set a new record.

The compensating effect of product diversification should continue to serve the Forest Products Group well when some markets soften and others remain strong. There was a continuing strong demand for paper during the first three quarters of 1981, for example, enabling our Pulp and Paperboard Division to turn out a record tonnage of product.

Inland Container, one of the largest producers of containerboard and corrugated con-

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tainers in the country, enjoyed another record year in production, revenues, and operating profits. Inland has contributed larger operating profits to Time Inc. every year since its acquisition in 1978.

In the final months of 1981, however, all paper markets began to soften and demand is currently still declining. We do not anticipate any substantial recovery in this area until the economy itself begins to recover, perhaps later in the year.

* * *

Outlook

In 1979 Time Inc.'s management initiated a five-year program of growth and development. We are happy to report that the 1981 financial results have put this development program well ahead of schedule. The Company was, therefore, able once again to raise the quarterly dividend rate last year, this time from 22.5 cents to 25 cents. In October, Time Inc.'s common stock was split two-for-one.

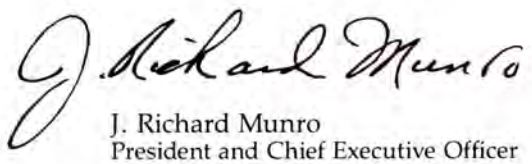
We enter 1982 with a sense of immense anticipation. We have strong managements in all of our operating groups, and we think we are well positioned for further growth in all of them. Our seven magazines are unsurpassed in editorial excellence, and are the most consistently and dramatically profitable in the history of magazine publishing. Our newest magazine, *Discover*, has enjoyed initial circulation acceptance and growth well beyond our expectations. We expect to add one or more new publications to this impressive array in the years immediately ahead.

In the video field, Time Inc.'s rise to eminence has been meteoric. We intend to maintain our present leadership in this area by continuing to innovate and to invest. We subscribe to the theory that the telecommunications revolution is just getting under way, and we intend to keep Time Inc. in its forefront.

As for our forest products operations, their profit potential currently lies at least partially dormant. But like the renewable resource on which they are based, their growth will resume. In the past, building products have contributed more than $40 million to Time Inc.'s profits in a single year. We expect they will do so again. The housing market, more than any other, creates its own backlog of deferred demand. Household formation continues even during recessions, and at some point the pent-up demand for housing will have to be satisfied.

So, while we have some misgivings about the immediate economic outlook and are taking the necessary belt-tightening steps, just in case the recession gets worse, we are highly optimistic for the long term.

Time Inc. can no longer be said to be a company whose assets ride down in the elevators every evening; it is now well endowed with more conventional assets. Nevertheless, we recognize that the people in those elevators and in our offices, plants, and forests are still our most important assets. With their continued help we look forward to another record year in 1982.



J. Richard Munro
President and Chief Executive Officer

February 17, 1982

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1981: A JOURNALISTIC RETROSPECTIVE



Henry A. Grunwald, editor-in-chief

For both the United States and Time Incorporated, 1981 began with thoughts of renewal.

In a special journalistic effort, all Time Inc. magazines joined together for the first time to work on a single project. It was called American Renewal and was prompted by the conviction that something must and can be done to reverse the growing self-doubt and sense of failure America has experienced in recent years. In 25 separate articles, our seven magazines simultaneously examined the nation's major problems and offered possible remedies: ways to rebuild the American economy, to restore American power in the world, and to revive at least in some measure America's morale.

Public reaction was gratifying. It ranged from the ceremonial (the governor of Alaska proclaimed March American Renewal month) to the comic (*National Lampoon* printed a parody of the project). From our readers we had requests for 52,000 reprints of all the articles, and unusually thoughtful letters, including many from business leaders, academics, Cabinet members, Senators, and Representatives.

In his inaugural address President Reagan also called for renewal and for new beginnings. Some of our proposals paralleled his; many differed sharply. Throughout the year, the Administration's efforts to set a new course for the country were reported by the Time Inc. magazines, each bringing its own approach to the story. *Money* stressed "What Reagan Economics Means to You." *Time* ran three cover stories on Ronald Reagan's economic policies, observing that "no President since FDR has done so much so quickly to change the basic path of the American economy." Nevertheless, only one month after Reagan took office, *Fortune* warned that his program, of which the magazine approved in general, would run into trouble if taxes were cut without commensurate cuts in government spending. At year's end, as deficit projections grew alarmingly, doubts about "Reaganomics" increased.

The press as a whole emphasized the recession. Here journalism faced a dilemma and a considerable responsibility: how to report the situation without rushing to a premature judgment of the Administration's program. Americans' notorious impatience, their insistence on quick results, were again very much in evidence.

* * *

The story of new beginnings had its ghastly counterpoint in terrorism. There were the assassination attempts, fortunately unsuccessful, on the Pope and on President Reagan, as well as the murder of Anwar Sadat. In the press coverage of these events, it was especially the photojournalists who distinguished themselves. One photographer, called "the crazy man" in Egypt because he has gambled his life so many times to document a story, captured at a distance of only yards the full sequence of Sadat's assassination. *Life* devoted its large pages to key frames of these pictures, with extraordinary impact.

Other events as well made it the year of the camera: the return of the hostages, the extravaganza of Britain's royal wedding, and the launch of the space shuttle (*Time* was on the

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newsstands with its five-page story, including an award-winning photograph of the launch, the day after the event). It was specifically the still camera which reasserted its ability to freeze moments of life and death with a power that often eludes the fleeting images on the television screen.

But the interaction between print and video journalism at Time Inc. continued in promising ways. A 40-member staff, including a former *Time* correspondent as managing editor, prepared to test a teletext service that allows a viewer to select and call up hundreds of different kinds of news and information on his TV screen. Throughout the year, the magazines prepared various television projects, including a *Money* show for HBO and a *Discover* program for syndication.

In its second year, *Discover* proved itself a unique newsmagazine of science. Encouraged by its success and by the continued vitality of its other magazines, Time Inc. reconstituted a Magazine Development Group, charged with exploring and preparing future magazine projects.

In October *Time* conducted the latest of its Newstours. For nearly two decades, on an average of once every three years, these tours have taken the chief executives of leading American businesses, as well as educators and civic leaders, to areas of major news importance and introduced them to world leaders. The 1981 tour went to Eastern Europe, including Poland, and the Middle East. It began with an interview with Lech Walesa, two months before the imposition of martial law in Poland, and ended with an interview with Egyptian President Hosni Mubarak, three weeks after he took over from the assassinated Anwar Sadat. Perhaps prophetically, Walesa told the Newstour participants, "We can be defeated. Half of us could be shot...And perhaps not tomorrow, but the day after we will overcome."

* * *

Journalism in 1981 had its inglorious moments. Notable was the case of Janet Cooke, a young reporter on the Washington *Post* who fabricated her dramatic story about a nonexistent eight-year-old drug user. When the story won the Pulitzer Prize, it was exposed as a fake. Most professionals argued that the editorial carelessness that allowed this story to reach print was not typical of the American press. But the incident did not contribute to the credibility of journalists.

There were fewer attempts than in recent years to restrain the press through legal action, except for some major libel verdicts that were clearly punitive if not vengeful. The press was found suspect by Senator Jeremiah Denton, chairman of a new Senate Subcommittee on Security and Terrorism. At subcommittee hearings, he declared that Soviet disinformation tactics had had a "measure of success" in deceiving "a story-hungry and sometimes gullible press"—a blanket and undocumented charge.

During his first year in office President Reagan had generally good relations with the press, but in the fall he made a dubious suggestion: that newsmen censor themselves. Before printing certain stories, he said, journalists ought to reflect whether they would have a good or bad effect on American foreign policy. Even if newsmen could guess what effect their stories would have, a free press in peacetime cannot accept such a standard.

Henry A. Grunwald

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PUBLISHING

Magazine profits rose 81 percent

Time magazine set industry records

Time-Life Books had disappointing year

Other Activities did well



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Time Inc. has been in the magazine publishing business since 1923 and in book publishing since 1960. Its preeminence in both these industries in 1982 is a testament to the broad appeal, editorial excellence, and evolutionary adaptability of its publications.

Nineteen eighty-one was the best year by far for Time Inc.'s publishing operations. Although book publishing earnings were down, magazine earnings rose 81 percent and their combined income was 27 percent higher than in 1980. Publishing accounted for 42 percent of Time Inc.'s total revenues last year, and for approximately one-third of the Company's operating profits.

The revenues and earnings of two Time Inc. publishing operations are not included in these totals. SAMI (Selling Areas-Marketing, Inc.), Time Inc.'s marketing information subsidiary, and Pioneer Press, which publishes 28 suburban weeklies, are discussed in the following pages, but their results are shown under "Other Activities" in the Lines of Business tables on page 40.



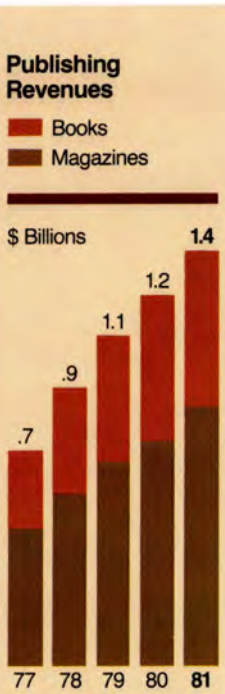
Joan D. Manley, *group vice president, Books;* Kelso F. Sutton, *group vice president, Magazines*

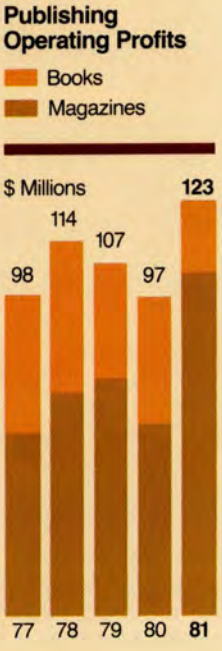
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MAGAZINE PUBLISHING



Award winning photo coverage of shuttle launch helped make *Time* the most honored magazine in 1981.





Time

In 1981, *Time* led all magazines in worldwide advertising revenues for the twelfth consecutive year. A strong U.S. performance plus international marketing strength in the face of weakening European economies enabled Time Inc.'s flagship publication to record $341 million in worldwide advertising revenues in 1981, an 11 percent improvement over the previous year.*

Time's worldwide circulation revenues also reached a new high in 1981, and in October a new rate base of 4,400,000 was announced for the U.S. edition. This latest increase of 150,000 provided fresh evidence of *Time's* enduring editorial strength, which was further corroborated by the newsmagazine's winning 81 editorial awards in 1981, making it the most honored publication in the magazine industry for the second year in a row.

The introduction of two new editorial sections, "Video" and "Design," reemphasized *Time's* flexibility within the newsmagazine format and its ability to respond to changing events and reader interests.

*U.S. ad revenue figures are before commissions and discounts, as reported by Publishers Information Bureau (PIB).

In November 1981, *Time* set two advertising records, both resulting from the insertion of a 32-page, four color holiday gift catalogue from Waldenbooks. This catalogue represented the largest single-product ad ever placed in a national consumer magazine and helped make the November 16 issue the largest single revenue-producing issue in the history of any weekly magazine. Total U.S. ad revenues for this one issue were in excess of $10 million.

Sports Illustrated

For *Sports Illustrated,* 1981 was a year of growth on every front—advertising, circulation, and editorial. Ad revenues at year-end stood at a record $154 million, reaffirming SI's position as the fourth largest among all U.S. magazines in that respect.

Circulation revenues also reached a new high, reflecting the country's still growing enthusiasm for sports and the way *Sports Illustrated* covers them.

It was a year of improved service for SI's readers as well. More text and photos were transmitted electronically to the magazine's printing plants, bringing many late-breaking

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Black and white photography almost disappeared from SI as editors delivered more of the action and excitement of sports in color.

TIME INC. MAGAZINES
(as of December 31, 1981)

	Rate Base (thousands of copies)	Gross Advertising Revenues* (millions)
Time (worldwide)	5,672	$340.8
Sports Illustrated	2,250	154.2
People	2,350	136.1
Fortune	670	70.4
Life	1,300	23.2
Money	875	23.0
Discover	600	5.3

*PIB, Rome Report, and MAC estimates

stories to subscribers sooner. In May, the editors launched a new color program, increasing the amount of color photography in the magazine by nearly 50 percent.

In addition to these efforts to enhance SI's coverage of the week's events in sports, the magazine continued to reach beyond the traditional boundaries of sports journalism to cover such important tangential subjects as ecological decay in Florida, the nationwide threat of acid rain, and the impact of pay and cable TV on sports.

People

For *People*, our newest weekly, 1981 was the most successful year since its launch in 1974. Advertising revenues reached $136 million—an increase of 28 percent over 1980. This placed *People* fifth among all U.S. magazines in advertising revenues and third in advertising pages. *People's* advertising spectrum now includes a greater variety of advertisers than that of any of our other magazines, encompassing, in all, 26 of the 29 Publishers Information Bureau categories of advertisers.

In 1982 the number of regional editions of *People* will be increased from four to seven, while the number of metro advertising editions will be expanded from four to eight. *People's* circulation rate base was increased 50,000 in July 1981, and 75,000 more in January 1982, to a new base of 2,425,000.

Several editorial sections introduced in 1980 continued to increase in popularity last year. "Coping," in particular, elicited favorable response from readers and from organizations dealing with the specific problems under discussion. "Going Home" and "Body" were also popular new features and these will be continued in 1982, as will excerpts from fiction and nonfiction books.



This young couple, featured in a *People* television commercial produced in-house, promotes the top stories in that week's issue.

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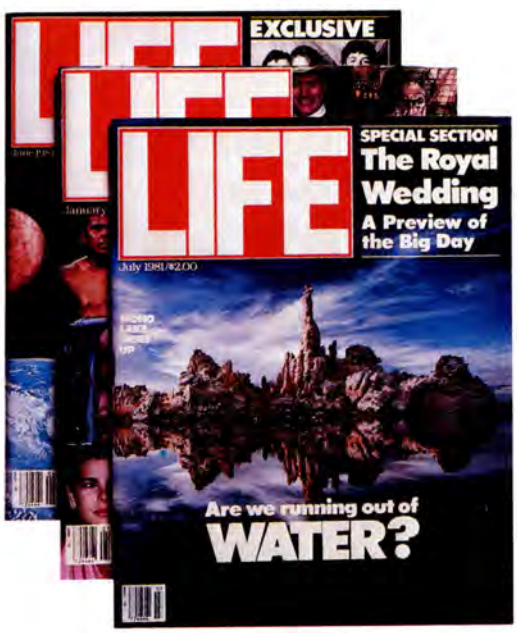


Writer on stock exchange floor works on timely story for fortnightly *Fortune*.

Fortune

Fortune, our second oldest publication (launched in 1930), also had its best year ever in 1981. *Fortune's* ad revenues reached $70 million, up 27 percent over 1980 and 140 percent over 1977, the magazine's last year as a monthly. These results continue to underscore the importance of the decision to convert the monthly *Fortune* to a bi-monthly.

In addition to the widely acclaimed and frequently quoted Fortune 500 and other corporate listings, the magazine published a number of special articles and series in 1981. A series on American productivity, "Working Smarter," will be republished in book form in 1982. Last year *For Some, the Dream Came True*, a book compiled by Duncan Norton-Taylor, a former managing editor of the magazine, was published. This is a collection of some of the best articles that appeared in *Fortune* during its first 50 years of publication.



A best-selling newsstand issue of *Life* in 1981 was July's "Are We Running Out of Water?"

Life

The new *Life* celebrated its third anniversary as a monthly in 1981 with advertising revenues of more than $23 million, a 20 percent increase over the previous year. *Life's* advertising rate base rose from 700,000 in 1978 to 1,300,000 in 1981. Newsstand sales continued to grow last year following a price increase to $2 per copy in 1980. Two notable newsstand winners were the January "Year in Pictures," and July's "Are We Running Out of Water?" The December 1981 issue set a record for the new *Life*, with advertising revenues totaling over $3.3 million.

Life plans to increase its editorial coverage in two areas in 1982—entertainment and modern living. In the entertainment area the magazine's coverage will be widened to include more articles on television, the theatre, dance, and music. To the various aspects of modern living *Life* already covers—architecture, arts and crafts, restoration, and fashion—it will add stories on trends and how Americans live. In the November 1981 issue a new feature, "Life Visits," was inaugurated with an exclusive look into Katherine Hepburn's private world; this year *Life* will visit other intriguing hard-to-get-to subjects. All of these innovations will add new excitement to *Life* and help strengthen its position as the quality monthly magazine of photojournalism.

Money

Money was one of the fastest growing magazines in America last year in terms of advertising revenues, advertising pages, circulation revenues, rate base, and newsstand sales. All set new records in 1981. Stretching beyond the usual confines of a magazine, moreover, *Money* has become a versatile information base with ventures in cable television, network and local radio and newspapers.

Ad pages were up 22 percent in 1981, while ad revenues rose 48 percent. *Money's* advertising rate base was raised 25,000 in

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To illustrate complex concepts like this new radio communication system for submarines, artist George Kelvin sketches ideas as *Discover* art director and writer discuss story.

February 1981 and 25,000 in July. A further 75,000 increase to 950,000 became effective in January 1982. Thus, within one year the magazine's rate base was increased 15 percent. These large increases reflect the strength of both subscription and newsstand sales. *Money's* 32 percent increase in newsstand sales was the largest for any of our magazines.

Several new editorial features were introduced during the year, including "The Best," a series on high-quality products, "Moneymakers," about individuals who are building fortunes for themselves and creating jobs and wealth in their communities, and "Money Profile," which focuses on the investment strategies and recommendations of individual financial advisers.

Money received considerable media exposure in 1981. Articles from the magazine are now syndicated in over 60 leading newspapers. In addition, "Your Dollars," a radio program, is carried five times a week by more than 250 CBS Radio Network affiliated stations. "Money Matters," a TV program drawn from the magazine, will become a regular feature on HBO in 1982.



"Your Dollars," Managing Editor Marshall Loeb's 5-day-a-week radio show, enhances *Money's* stature.

Discover

Reader acceptance of *Discover*, our newest magazine, was exceptional, enabling it to almost double its advertising rate base from 400,000 to 750,000 after only 15 issues. Of the three new general interest science magazines, *Discover* was No. 1 in advertising revenues in 1981, carrying $5,300,000 of advertising. Effective with the January 1982 issue, *Discover* increased its subscription price to $20 per year and its advertising page rate by 31 percent.

The concept of a newsmagazine of science has been well received and is unique. Editorially, the magazine has begun to establish a strong identity.

This January *Discover* went multi-media. A one-hour television special, "*Discover*, The World of Science," was produced under the direction of *Discover's* editors. *Discover* has also been chosen by the Associated Press Radio Network to supply it with daily science broadcasts.

We expect *Discover* to continue its leadership position in the emerging field of science magazines, while achieving new growth in both circulation and ad revenues in 1982.

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BOOK PUBLISHING



A studio kitchen at TLB's Alexandria, Virginia, office facilitates illustration of cookbooks.

Time-Life Books

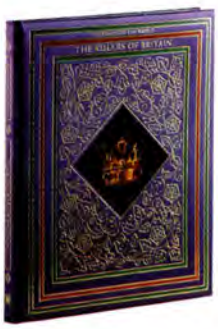
Time-Life Books Inc., the largest company in the Books Group, experienced an increase in revenues in 1981. Domestic profits, however, fell sharply owing to the weakness in the U.S. economy, consumer resistance to higher book and record prices, and the failure of a new series, the *Library of Health*, to appeal to a broad audience. International profits were damaged by foreign currency exchange rates and disappointing results in Japan and Mexico.

As opposed to the U.S., where TLB series are sold on an individual book basis and the subscriber receives only one volume at a time, in several foreign countries we have found it advantageous to sell an entire series delivered as a set. The set, however, is billed on an installment basis, thereby creating a sizable receivable. This format has been very successful in Mexico, but the recent high rate of inflation there has substantially increased the cost of collecting the receivable. As a result, the Mexican operation lost money in 1981, and we are currently reappraising its future potential.

In its 21-year history, Time-Life Books has published a total of 711 titles, which include 569 titles in 29 mail-order book series, 47 titles in five retail book series, and 95 single titles. In addition to the *Library of Health*, *The Collector's Library of the Civil War* was introduced in 1981 to the mail-order market. This series consists of leather-bound reproductions of true-life narratives from the Civil War era priced at $20 per copy.

Time-Life Records, a division of Time-Life Books, last year added four new series to its roster of discs and tapes: *Great Performers*, *The Metropolitan Centennial Collection of Great Opera*, *Country & Western Classics*, and *Country Music* (a 20 LP collection to be sold initially in U.S. supermarkets).







Among the new Time-Life Books series launched last year were: *The Collector's Library of the Civil War*, *Treasures of the World*, and a record series, *Country Music*.

Stonehenge Press, a relatively new Time-Life Books imprint, introduced two new mail-order series in 1981. One was *Treasures of the World*, a handsomely bound, illustrated series of art books, and the other *Discovering*, which focuses on nature and science topics for the young adult market.

January 1982 saw the introduction of two new TLB series, *Planet Earth* and *Peoples of the Wild*, the latter prepared by Time-Life Books' editorial staff in London for the European market. Both Time-Life Records and Stonehenge Press also plan to introduce series later in 1982.

Book-of-the-Month Club

The Book-of-the-Month Club had the best year in its 55-year history in 1981. A subsidiary of Time Inc. since 1977, BOMC had record net sales and record net income, and reached a record high membership. The club's most successful main selection was John Irving's *The Hotel New Hampshire*, which won both popular and critical acclaim. The club also had among its selections the longest-running book of the year in fiction on the New York *Times* bestseller list—*Gorky Park*—and the longest-running book in nonfiction—*Cosmos*. BOMC's Record Division

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Book-of-the-Month Club selections that appeared on bestseller lists last year and three offerings of the new BOMC/Science Club.

also established new highs in dollar sales and units sold last year. Among its outstanding recordings (offered both in record and cassette form) were a Béla Bartók centennial album and a Dave Brubeck jazz album.

BOMC's eight-year-old Quality Paperback Book Club continued to increase in popularity and membership. Its sales reached a new high and the club contributed significantly to BOMC's operating profits in 1981. A new book club, BOMC/SCIENCE, got off to a fast start. Founded in February, it achieved net sales of more than $1 million by the end of the year. Meanwhile, BOMC's other book clubs—Cooking & Crafts, Fortune, and Dolphin—all performed beyond expectations.

The Subscription Services Division in Chicago received—and opened automatically—over 44 million pieces of mail in 1981.

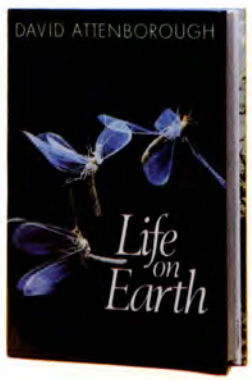


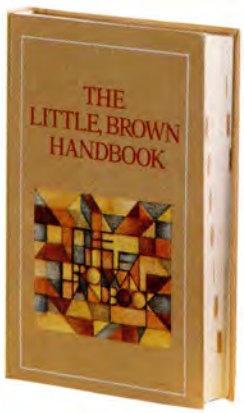
Little, Brown

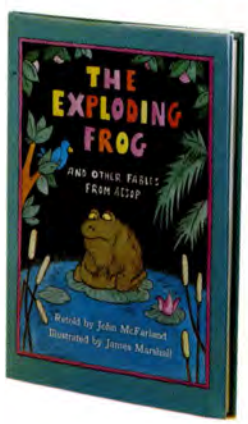
Little, Brown and Company, the prestigious 145-year-old Boston publishing firm that has been affiliated with Time Inc. since 1968, released 308 new titles in 1981 and posted record revenues and earnings for the year. Especially well received were David Attenborough's *Life on Earth*, which is being shown as a 13-part television series on PBS, the *Selected Letters of James Thurber*, and a new edition of Ansel Adams' *Images*. Also of special note was Tracy Kidder's *The Soul of a New Machine*, which appeared on the major bestseller lists throughout the fall of 1981.

In addition to publishing popular fiction and nonfiction for adults and children, Little, Brown is a leading law, medical, and college textbook publisher. These divisions continued to show steady growth with general expansion of their publishing programs.

In October, Little, Brown acquired the publishing list of Winthrop Publishers, a college textbook house in Cambridge, Massachusetts.



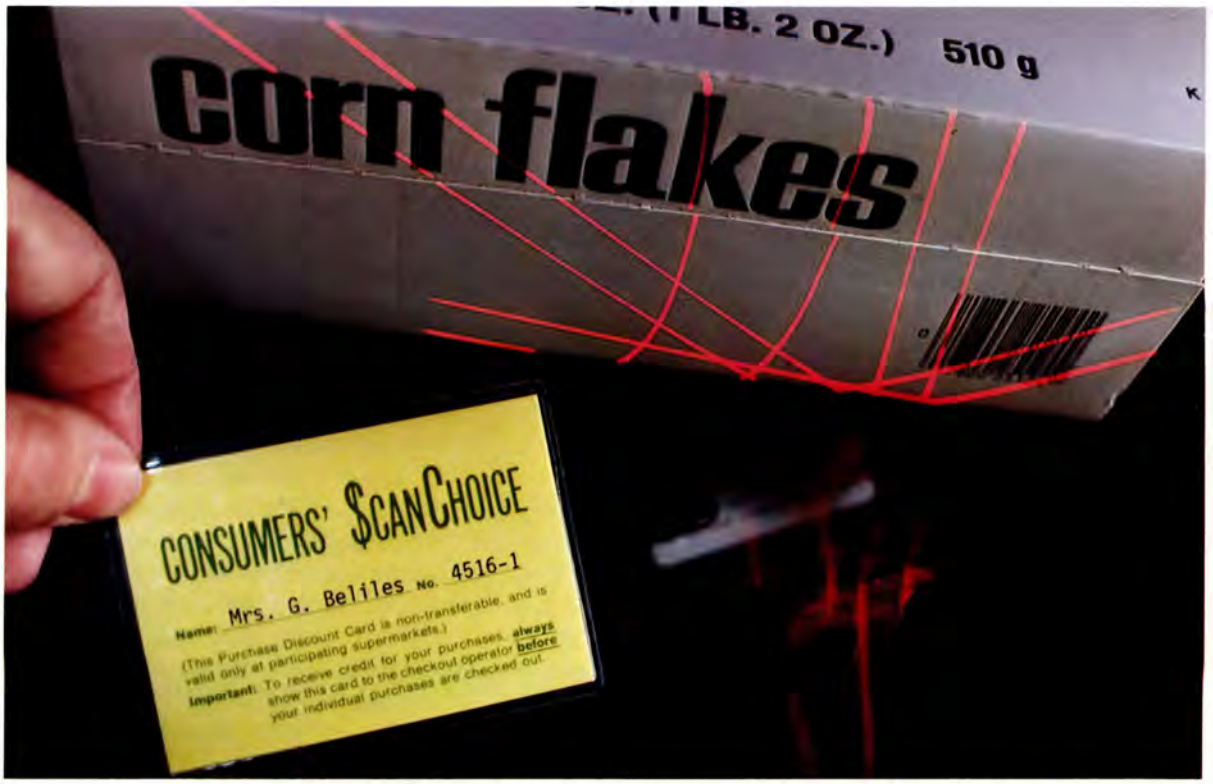




Little, Brown is a leading publisher of both trade and professional books.

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OTHER ACTIVITIES



Supermarket scanner "reads" UPC codes and records purchases made by cardholding members of SAMI consumer panels.

SAMI

Time Inc.'s marketing information subsidiary, SAMI (Selling Areas-Marketing, Inc.), engages in a somewhat different kind of publishing activity. Each year it supplies millions of pages of computerized reports of sales and related data to manufacturing clients who market their products through retail grocery stores. In 1981, SAMI's sales reached a new high: revenues increased 16 percent over 1980.

The information in SAMI reports is compiled from product movement data supplied by grocery chains and wholesalers. In 1981, SAMI added three new markets to its basic reporting system, bringing the total number of markets surveyed to 42. These markets, in the aggregate, account for nearly 80 percent of all U.S. food-store sales.

SAMI also provides its clients with information on product availability within each market through a companion service known as SARDI (SAMI Retail Distribution Index). In addition, to permit manufacturers to pinpoint their sales opportunities still further, SAMI last year expanded its Market Segmentation Services, which were introduced in 1980. Through this service, manufacturers are able to identify the performance of their brands within specific geographic and ethnic subdivisions of SAMI markets.

In 1981, SAMI also increased its processing of data generated in stores equipped with electronic scanning devices. In one city in Florida, one in Indiana, and one in Maine, SAMI is able to monitor, on a continuous basis, both store sales volume by brand and item and the purchases made by representative panels of store customers selected to constitute a cross-section of each market. This information, known as SAMSCAN data, is analyzed in conjunction with TV advertising and in-store promotion data, permitting marketers to gain a better understanding of how their advertising works.

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Technician strips in cover negative for *Wilmette Life*, one of 28 Pioneer Press weeklies published in Chicago suburbs.

Pioneer Press

Pioneer Press, a Time Inc. subsidiary with 28 weekly publications in the northern and western Chicago suburbs, had a record revenue year in 1981. Advertising pages were up 4.8 percent, while paid circulation increased 8.2 percent. Although most newspapers in the Chicago market lost circulation in 1981, over a million more copies of Pioneer Press publications were sold than in 1980, and 2,940 more ad pages were run. Pioneer Press weeklies are now read in more than 156,000 Chicago suburban homes.

In 1981, Pioneer Press won 24 national, regional, and local awards for excellence in suburban journalism. A Pioneer poll of its readers' opinions on gun control laws was cited by the *Christian Science Monitor.*

Pioneer operates ten local offices in the Chicago suburbs which are all linked to central production and marketing facilities in Wilmette. This network provides Pioneer with high local visibility in each of the communities it serves, plus the efficiency of centralized production and management.



Time Inc.'s Information Systems Center in Lyndhurst, New Jersey, provides the Company with state of the art computer services.

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FOREST PRODUCTS

Capital improvement plan completed

Paper mill turned out record tonnage

Building Products Division reported small profit

Inland Container again set new marks



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Time Inc.'s participation in the forest products industry dates back to 1952 when it acquired timberland and built a paperboard mill in Evadale, Texas. Two decades later the Company doubled its timber holdings to more than a million acres, and also entered the building products industry through the acquisition of Temple Industries and creation of Temple-Eastex in 1973.

In 1978, Time Inc. further broadened its forest products operations with the acquisition of Inland Container Corp., one of the largest manufacturers of containerboard and corrugated boxes in the U.S. This acquisition gave us a one-half interest in another million acres of forest land as a result of Inland's 50 percent ownership of the Georgia Kraft Company.

The Forest Products Group managed to turn in record revenues and earnings last year, despite the abysmal state of the economy in general and the residential construction industry in particular.

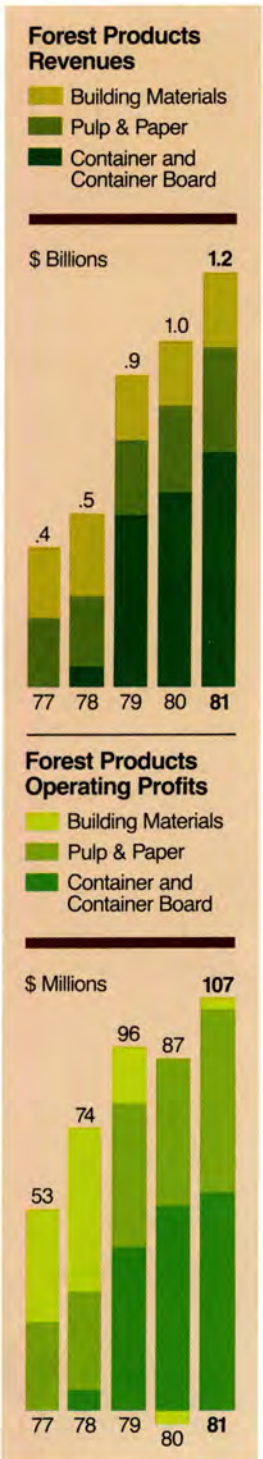


(from left)
Arthur Temple, *vice chairman of the board;*
Joe C. Denman Jr., *president and chief executive officer, Temple-Eastex Inc.;*
Clinton G. Ames Jr., *president and chief executive officer, Inland Container*

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The capacity of this paper machine at the Temple-Eastex Evadale mill was significantly increased by the recently completed $110 million capital improvement program.



Temple-Eastex

Forests Division

The Temple-Eastex Forests Division manages the Company's 1.1 million acres of forest land in Texas, oversees a land acquisition program, and is responsible for satisfying all of the company's timber requirements. Last year the Forests Division provided our mills with approximately 598,000 cords of timber from Company lands and acquired 363,000 cords from outside sources. The Forests Division management plan is designed to provide a balance of fiber requirements from Company lands and outside sources and still ensure the optimum growth from our own timberlands.

An exceptionally good planting and growing season in East Texas enabled the Company once again to plant more than 30 million seedlings last year. Meanwhile, the division's Stillman Nursery produced over 40 million seedlings that will be used during the current planting season and to replant acreage hit by drought in 1980.

The Forests Division's active planting program is intended to place all of the Temple-Eastex pine growing acreage on a 35-year harvest rotation. This perpetual forest plan will provide the Company with an assured and increasing inventory of raw material. The program will also provide us with much more fiber per acre than would be possible through natural reforestation.

Plans for the utilization of our timberland have been programmed into a computerized information system which includes harvest management schedules through the year 2012. This complex data bank contains detailed plans for managing each timber stand in the 2,500 compartments making up our Texas acreage.

We own mineral rights to approximately one-third of our timber acreage. The Temple-Eastex Minerals Division, which oversees the leasing of mineral exploration rights on all Company mineral acreage, contributed operating profits of $8 million in 1981. Most of Temple-Eastex's mineral acres are under lease for oil and gas exploration, and drilling activity has been high in several areas of East Texas.

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An industrial hygienist does chemical analysis in Temple-Eastex's quality control laboratory.

Every week Temple-Eastex biologists test the water in the Naches River above and below the Evadale paper mill for pollution (left).

Pulp and Paperboard Division

The demand for bleached pulp and paper of the grades this division produces held up remarkably well during the first three quarters of 1981. The division consequently was able to realize many of the benefits of its recently completed $110 million capital improvement program and managed to turn out record tonnages in 1981. The average daily output of the Evadale mill rose to 1,456 tons last year. The improvements in the mill facilities, moreover, enabled the mill to maintain a higher quality level in both pulp and paperboard production than ever before.

The deepening recession late in the year began to erode market demand for some bleached board products. By year-end, pulp inventories in North America had reached the highest level in several decades. Nevertheless, we were able to maintain the selling prices of bleached paperboard grades at reasonably high levels until December.

The capital improvement program has increased product mix flexibility as well. This will have the effect of allowing the company to realize substantial profit margins during periods of strong market demand. To improve productivity further, and to meet environmental requirements, we are rebuilding one of our chemical recovery boilers at the Evadale mill. This is scheduled for completion at a cost of $12 million early in 1982. This will markedly increase the efficiency of the unit, while substantially reducing its sulphur emission levels. Work will begin in early 1982 on a $4 million upgrading of the mill's wastewater treatment system.

Eastex Packaging, a subsidiary of the pulp and paperboard division that operates folding box plants in Memphis, Tennessee, Madison, Wisconsin, and Charlotte, North Carolina, set new records in both revenues and earnings last year. This division designs, manufactures, and prints a wide range of cardboard boxes used by customers to package everything from toothpaste to dog food.

Building Products Division

The Building Products Division operated at a slight profit last year in contrast to a loss the previous year. Nevertheless, with home construction at the lowest ebb since World War II, most of our building products plants had to scale back production in 1981.

Profit margins for most building products were squeezed. Some of our building products operations suffered losses because sales volume and prices were down, while manufacturing costs continued to rise.

Paradoxically, some raw materials were in short supply. When wood fiber suppliers such as outside mills and plywood plants cur-

Most of Temple-Eastex's mineral acres are under lease for oil and gas exploration.



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Rolls of containerboard at one of Inland's 28 box plants await conversion into corrugated boxes.

tailed their production, our particleboard mills in Texas, Alabama, and Georgia were all pinched for raw materials. Despite slack demand, our plywood mill at Pineland, Texas, operated throughout 1981, serving as an important source of wood chips for our pulp and paperboard operations at Evadale.

With most of the division's manufacturing plants operating below rated capacity during 1981, our managements concentrated on increasing productivity, cutting unit costs, and improving production equipment. New management control systems were inaugurated at our fiberboard and plywood mills, for example, and these programs have reduced unit costs for these products.

The permanent closing of several competitive fiberboard plants in our market area has reduced overall production capacity and should help our sales of fiberboard insulation sheathing and exterior siding. Also in the silver lining category, home building in the Houston market, relatively close to the division's building products manufacturing complexes in Diboll and Pineland, Texas, has remained strong despite the recession. This has particularly benefited our retail building products outlets in that area.

Inland Container's Marketing and Technical Center in Indianapolis custom-designs boxes for hundreds of products each year.



Other Operations

In addition to the Forests, Pulp and Paperboard, and Building Products Divisions, Temple-Eastex subsidiaries are engaged in a number of other activities important to the construction industry.

- Lumbermen's Investment Corporation, a large mortgage banking company, which is also engaged in real estate and insurance operations, had a record year in 1981 despite the recession. Its operating profit was 16 percent higher than the previous year. LIC's primary business, real-estate lending, added $264 million in new loans in 1981, and LIC now services approximately 80,000 loans in a $1.9 billion portfolio.

LIC's real-estate developments are well located and strongly financed, which should provide it with additional profit leverage when the housing market recovers.

LIC's insurance activities contributed approximately 30 percent of its 1981 earnings.

- Temple Associates, a general contracting, engineering, and architectural company, specializes in construction projects for the forest

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industry. Associates' power and communications division is also building cable systems for Time Inc.'s American Television and Communications Corp. This division's 1981 revenues of $60.7 million represented a 13 percent increase over 1980.

- Other Temple-Eastex operations include AFCO Industries, a producer of interior building materials such as wall paneling, and Sabine Investment Co., a residential land and real-estate development company.

Inland Container

Inland Container Corporation of Indianapolis was founded in 1925 and acquired by Time Inc. in 1978. It is one of the largest manufacturers of containerboard and corrugated boxes in the U.S. Last year, buoyed by strong performances from its mills, Inland again turned in record revenues and operating profits as it has each year since its acquisition. Revenues were $657 million, up 13 percent over 1980, while operating profits were $56 million, an increase of 4.7 percent.

The demand for shipping containers began to soften in the final quarter of 1981. Shipments of boxes for automotive products, major appliances, and other household goods were particularly affected as many companies in these industries began shutting down or curtailing operations for extended periods. For the year as a whole, Inland shipped 981,000 tons of corrugated boxes, which on a unit basis was up only slightly from 1980.

Inland is a fully integrated packaging company and produces most of its own raw materials and components at each stage of the production process from wood chips to finished boxes. The boxes are manufactured at 28 plants scattered across the U.S. and in Puerto Rico. Shipping costs and customer service necessitate locating box plants close to their markets, and last year two additional Inland box plants began operation. One was a newly constructed facility in Garden City, Kansas, designed specifically to service the red-meat industry, especially beef packing. Inland's one-piece meat box, which was engineered to be compatible with packers' set-up equipment, is gaining good acceptance in the industry and production at the Garden City plant is rising steadily. The other plant was a previously closed facility in Kansas City, Kansas, which Inland purchased, renovated, and reopened.



Meat is delivered to restaurants and butcher shops in specially designed boxes produced at Inland's Garden City, Kansas, plant.

In addition to its own resources and those of its ink, tape, and specialty box subsidiaries, Inland is a 50 percent owner of Georgia Kraft Company, which is headquartered in Rome, Georgia. Georgia Kraft is, among other things, a major producer of linerboard, the outside facing material that, together with a fluted corrugating medium, forms corrugated board, the material from which corrugated boxes are made. Most of Inland's linerboard is supplied by Georgia Kraft while three Inland mills produce corrugating medium. Taking into account Inland's share of Georgia Kraft's containerboard output, Inland produced about 1.1 million tons of containerboard in 1981.

During the third quarter of 1981, Inland's inventories of containerboard grew uncomfortably large. To offset this, the company extended some mill maintenance shutdowns.

Inland's capital expenditures in 1981 totaled $33.2 million, a 29 percent increase over the previous year.

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VIDEO

ATC reached 1.8 million subscribers

HBO added two million homes

Cinemax topped million subs after only 15 months

Time Inc. acquired a one-third interest in USA Network



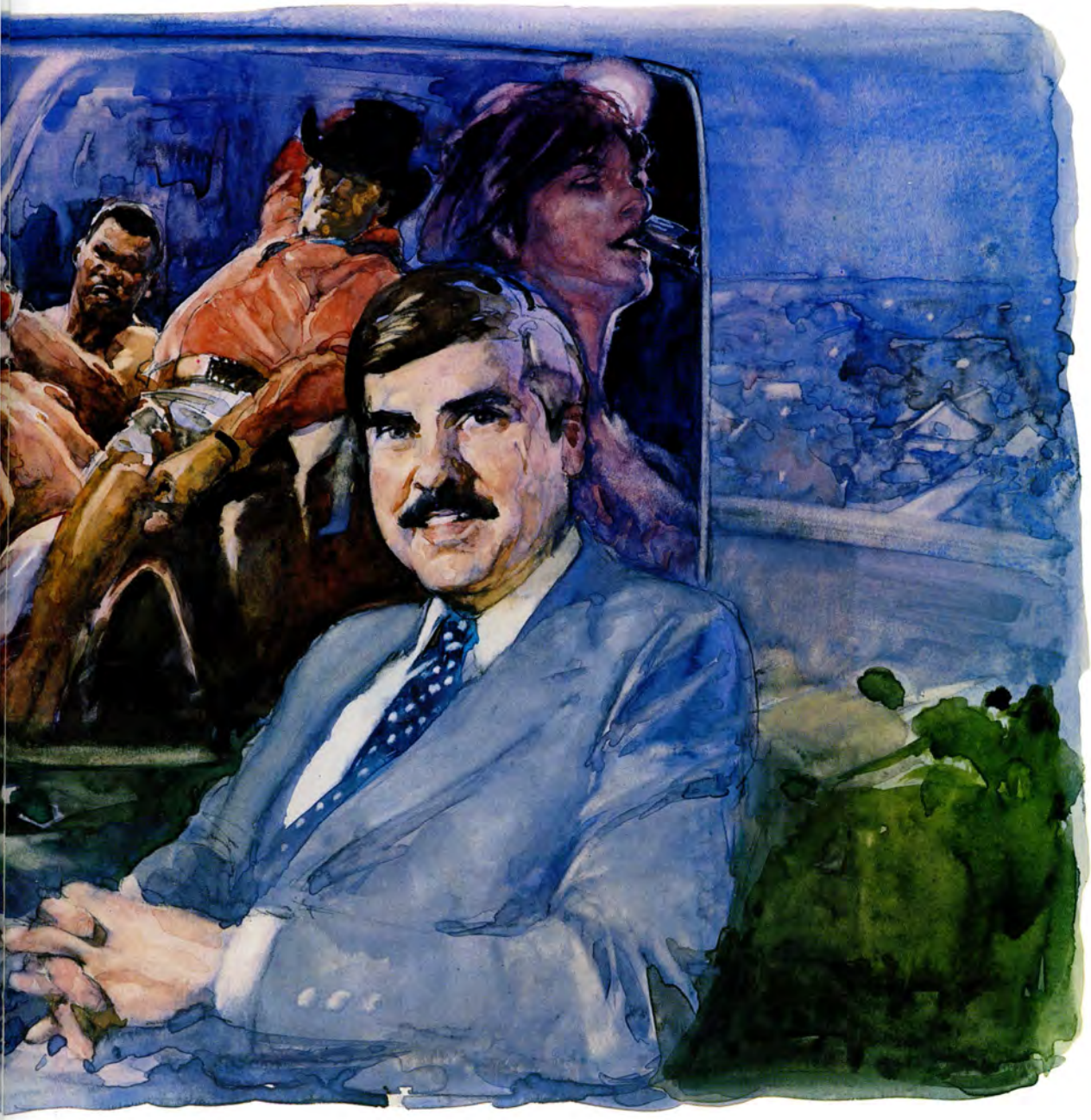
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Time Inc.'s Video Group is the youngest and fastest growing of the company's three major operating groups. It now consists of American Television and Communications Corporation (ATC), a cable television system operating company; Home Box Office (HBO), a pay-TV program supplier; television station WOTV in Grand Rapids, Michigan; and Time-Life Video, a producer and distributor of video training programs.

In addition, last year Time Inc. acquired a one-third interest in the USA Network, an advertiser-supported cable programming service capable of reaching some 10 million homes.

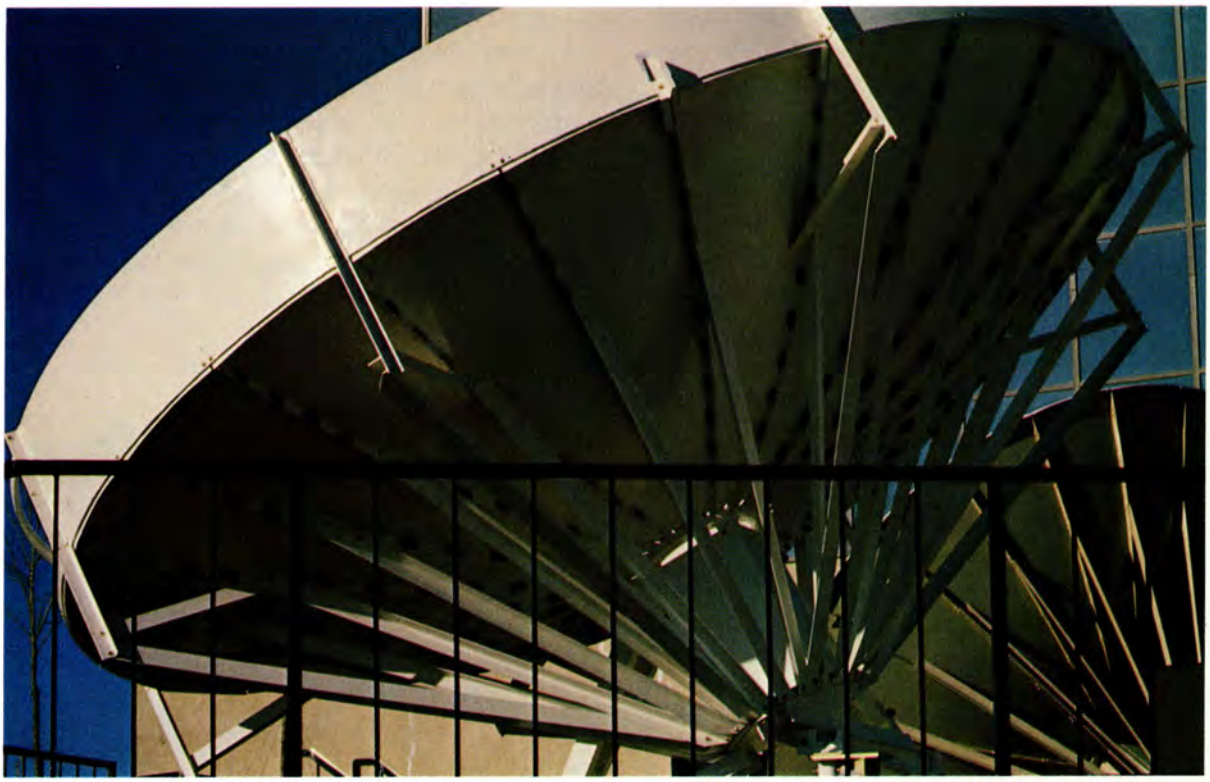
Still in the developmental stage is the marketing of over-the-air subscription television (STV), with projects under way in three cities.

The Video Group is also experimenting with a computer-fed teletext home video service capable of providing a wide selection of television-displayed information on demand. Most of the Video Group's operating subsidiaries earned record revenues and profits in 1981.



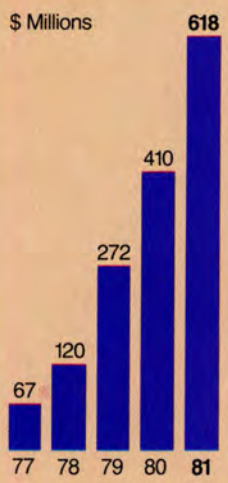
Gerald M. Levin, *group vice president, Video*

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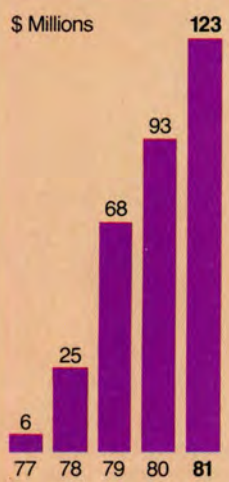


ATC satellite earth station near Denver is being used to test high-speed data transmission.

Video Revenues



Video Operating Profits



ATC

American Television and Communications Corporation (ATC) is Time Inc.'s Denver-based cable television system operating company. It now serves more than 1.8 million subscribers across the country and is the largest multiple cable system operator in the U.S.

ATC operates 125 cable systems in 33 states. Its rapid expansion has been achieved through a policy of balanced growth: winning and building new franchises, the strategic acquisition of operating systems, and expansion of existing systems. During 1981 ATC won new franchises in Indianapolis, Indiana; Sheboygan, Wisconsin; the suburbs of Denver, Colorado, and Kansas City, Missouri; and in other areas with a total of 185,000 homes. The acquisition of operating cable systems in Honolulu and Austin, Texas, added another 150,000 subscribers and the potential for future growth. Last year ATC also continued the construction of major cable systems in Jacksonville, Florida; Kansas City, Missouri; Memphis, Tennessee; Rochester, New York; Erie, Pennsylvania; Green Bay, Wisconsin; and in the suburbs of several other major cities. The total number of homes in ATC franchised communities now exceeds 4.5 million.



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Female cable installer practices climbing on "pole farm" at ATC's National Training Center.

With nearly 1.4 million pay cable subscribers, ATC ranks first in the industry. Pay subscriptions in its newer systems, moreover, are running proportionately about twice as high as in the older systems. This is partly because the newer systems have greater channel capacity and offer a larger number of program choices. As older systems are upgraded and their channel capacity is increased, we expect a dramatic increase in the ratio of pay subscribers to basic subscribers in these older systems as well.

ATC's exceptionally high ratio of pay subscribers to basic subscribers is the result of a carefully planned and well executed marketing program. ATC is taking a similar approach to its exploration of new cable-delivered services, such as home security systems and home information systems.

The sale of advertising time on local cable systems is becoming a viable business in a growing number of ATC systems, and the number of joint ventures with local newspapers to provide news on advertising-supported channels is increasing steadily. New businesses that require two-way communications capability—e.g., banking and shopping at home—will be developed more gradually. In ATC's Orlando, Florida, and San Diego, California, systems, a 24-hour satellite-delivered teletext service is to be tested in conjunction with local newspapers.



Of Manhattan Cable's 500 employees, about 300 install and service equipment. Here crews ready trucks of MCTV's 125-vehicle fleet at dawn.

10 LARGEST ATC CABLE SYSTEMS
(estimated end of 1981)

Location	Basic Subs	Pay Units
Manhattan, NY	154,000	81,000
Austin, TX	79,000	37,000
Orlando, FL	76,000	62,000
Honolulu, HI*	66,000	57,000
San Diego, CA	61,000	36,000
Melbourne, FL	54,000	24,000
Memphis, TN*	52,000	80,000
Jacksonville, FL*	51,000	68,000
Reading, PA	46,000	23,000
Shreveport, LA	44,000	27,000

*Less than 100% owned

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(above)
Drawing with a light pen on an electronic graphics tablet, teletext video artist creates a portrait on TV screen.

(right)
Panel of consumers discuss reactions to samples of teletext pages.



ATC has taken several steps to ensure its ability to meet the demands of projected growth. The company's own construction division, which was organized in 1979, built more than 2,500 miles of the 8,000 plus miles of new cable plant built or acquired in 1981. This division will continue to have a major share of the responsibility for implementing ATC's ambitious schedule for building new systems and upgrading existing ones. The company's new National Training Center in Denver—the first such facility built and funded by a cable company—is part of ATC's broad-based program of human resource development.

Home Box Office

In 1981, Home Box Office added more than two million subscribers, increasing its audience reach to over 8.5 million homes and maintaining its position as the nation's leading pay-TV programming service. More than 3,300 cable systems across the country now receive HBO programs, and one of every ten U.S. television households receives the HBO channel.

In 1981 Time Inc. acquired a one-third interest in the USA Network, which reaches some 10 million homes.

Cinemax, the 24-hour movie channel launched in 1980, celebrated its first full year of service in 1981 with even more robust growth. Its subscribers grew from about 200,000 at the beginning of the year to more than one million at year-end. Over 600 cable systems now receive Cinemax programs.

The solid increases in the number of HBO and Cinemax subscribers reflect not only the continuing expansion of the cable and pay-TV industries, but a new cable phenomenon, "multipay." Many cable operators are now offering their subscribers more than one pay service. As system operators expand their offerings the multipay environment is becoming more competitive. We feel HBO and Cinemax will thrive in this competitive atmosphere. As of January 1982 both HBO and Cinemax were operating as twenty-four-hour networks.

In 1981, HBO continued to distinguish itself by the quality and variety of its pro-



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gramming, offering a balance of films, original programs, and sports events. During the year HBO significantly expanded its schedule of feature films, documentary-entertainment and children's programs, as well as musical performances, and began to present legitimate theatre productions to home viewers as well. HBO-produced specials in 1981 included two stage programs: *Vanities* and *Sherlock Holmes*. Other HBO originated programs included a number of entertainment specials, as well as informational and magazine-type specials. A new documentary-entertainment series, *Remember When*, a historical perspective of American culture hosted by Dick Cavett, was the first pay-TV production to receive an endorsement from the National Education Association.

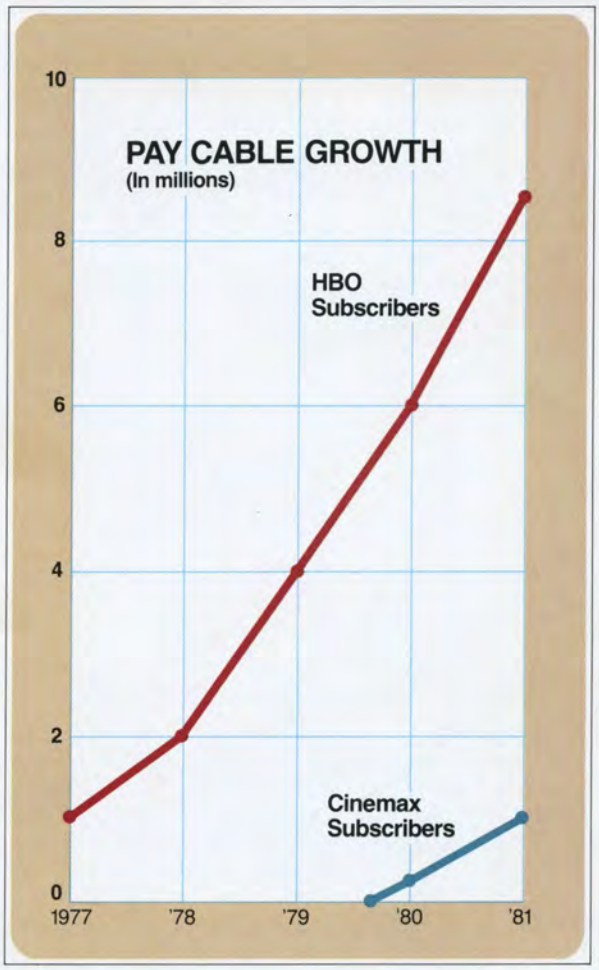
During the year HBO also continued its live coverage of sporting events, offering several title fights. A total of 58 sports programs were shown exclusively on HBO in 1981.

HBO announced plans in 1981 to produce the first made-for-pay-TV feature film, *The Terry Fox Story*, and in December it announced that it would offer the first major original pay-TV series for children. Entitled *Fraggle Rock*, the series is to be produced by Henson Associates, Inc., producer of the award-winning Muppet television and film productions.

In 1981, for the third straight year, HBO won the largest number of National Cable Television Association (NCTA) ACE awards for excellence in programming. It also received the NCTA's second annual Distinguished Achievement Award for its pioneering achievements in the pay-TV industry. The crowning accolade, however, was subscriber approval. According to A.C. Nielsen reports, HBO frequently drew larger prime-time audiences in households equipped to receive HBO than did any of the three commercial television networks.



HBO maintains a large and constantly changing library of programs licensed to be shown on HBO and Cinemax.



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A PANOPLY OF PROGRAMS

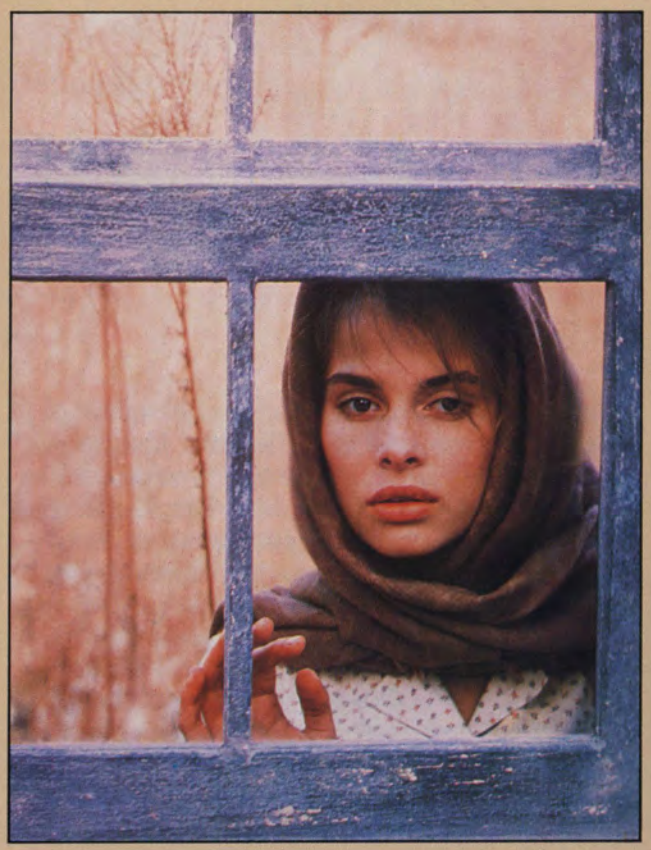
HBO and Cinemax offered subscribers a rich and varied menu of programs.



▲ HBO's Diana Ross special—a repeat classic

HBO's theatre production of *Sherlock Holmes* ▶

▼ Nastassia Kinski in *Tess* on Cinemax





◀ Richard Harris in *Camelot*

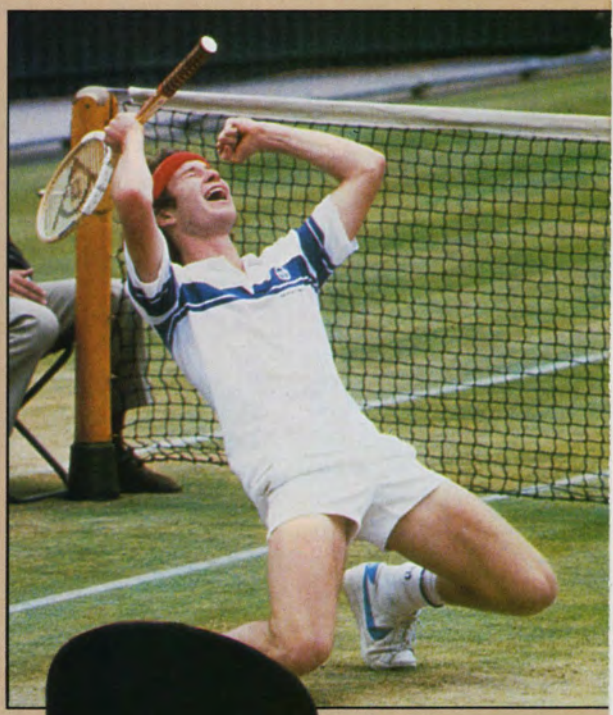


▲ Leonard-Hearns Championship fight, live

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▼ John McEnroe emoting at Wimbledon





◀ Simon and Garfunkel in Central Park



◀ Goldie Hawn in *Private Benjamin*



▲ Dick Cavett in *Remember When* series

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Muppet creator Jim Henson and HBO Programming VP Michael Fuchs discuss a new children's series, *Fraggle Rock*, to be shown on HBO.

Cinemax, which offers a broad range of films, including classics, family, action-adventure, and foreign features, continued to increase its movie offerings in 1981. From an initial 18 titles shown in its first month of operation, the schedule was enlarged to 37 films in December 1981. Last year Cinemax ran a total of 331 different movies.

Home Box Office launched a $10 million national advertising campaign in 1981. The campaign featured two industry firsts: prime-time commercials on network TV, and local newspaper, radio, and TV advertising in support of affiliated cable systems.

Looking to the future, HBO negotiated the purchase of six transponders on the Hughes Galaxy I satellite, which is scheduled to be launched in 1983, and is seeking to acquire another transponder from RCA.

USA Network

In 1981, Time Inc. further expanded its cable network activities by purchasing a one-third interest in the USA Network, an advertiser-supported cable programming network. The USA Network, which Time Inc. owns in partnership with Paramount Pictures Corporation and MCA, Inc., started operations in 1977 and is currently distributed via satellite free of charge to cable subscribers to some 1,600 cable systems. It now serves approximately 10 million cable homes. Through this network, Time Inc. not only



Over 9.5 million copies of HBO and Cinemax program guides are printed monthly.

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Station WOTV provided saturation coverage of the week-long dedication ceremonies for the Gerald R. Ford Presidential Museum in Grand Rapids, Michigan.

gains access to the commercial television advertising market but eventually it may also be able to explore the sale of programs on a pay-per-view basis when the use of addressable home converters becomes more widespread.

WOTV

In May 1982 television station WOTV in Grand Rapids, Michigan, will mark its 25th anniversary of association with Time Inc. As the station and its market have grown (now 1.5 million viewers), so has the station's commitment to quality community programming.

In 1981, WOTV expanded its regular local news programming to over 13½ hours weekly by adding two weekend newscasts. The station's "NewsCenter 8" reports now include special investigative features and nightly reports on consumer issues. Staff specialists have been added in both areas. In news, sports, culture, and public affairs, WOTV is a leader in community involvement.

Developmental Activities

The primary developmental activity of the Video Group in 1981 was the marketing of over-the-air subscription television (STV) in Dallas, Boston, and Cleveland. STV uses a UHF signal to transmit scrambled pay programs from a local TV station to decoding boxes in subscribers' homes. The programs offered are primarily movies, but ATC also successfully marketed three pay-per-view special events last year—"The Rolling Stones Live in Concert," the Leonard-Hearns fight, and a dual card offering, the Leonard-Kalule and Hearns-Baez fights.

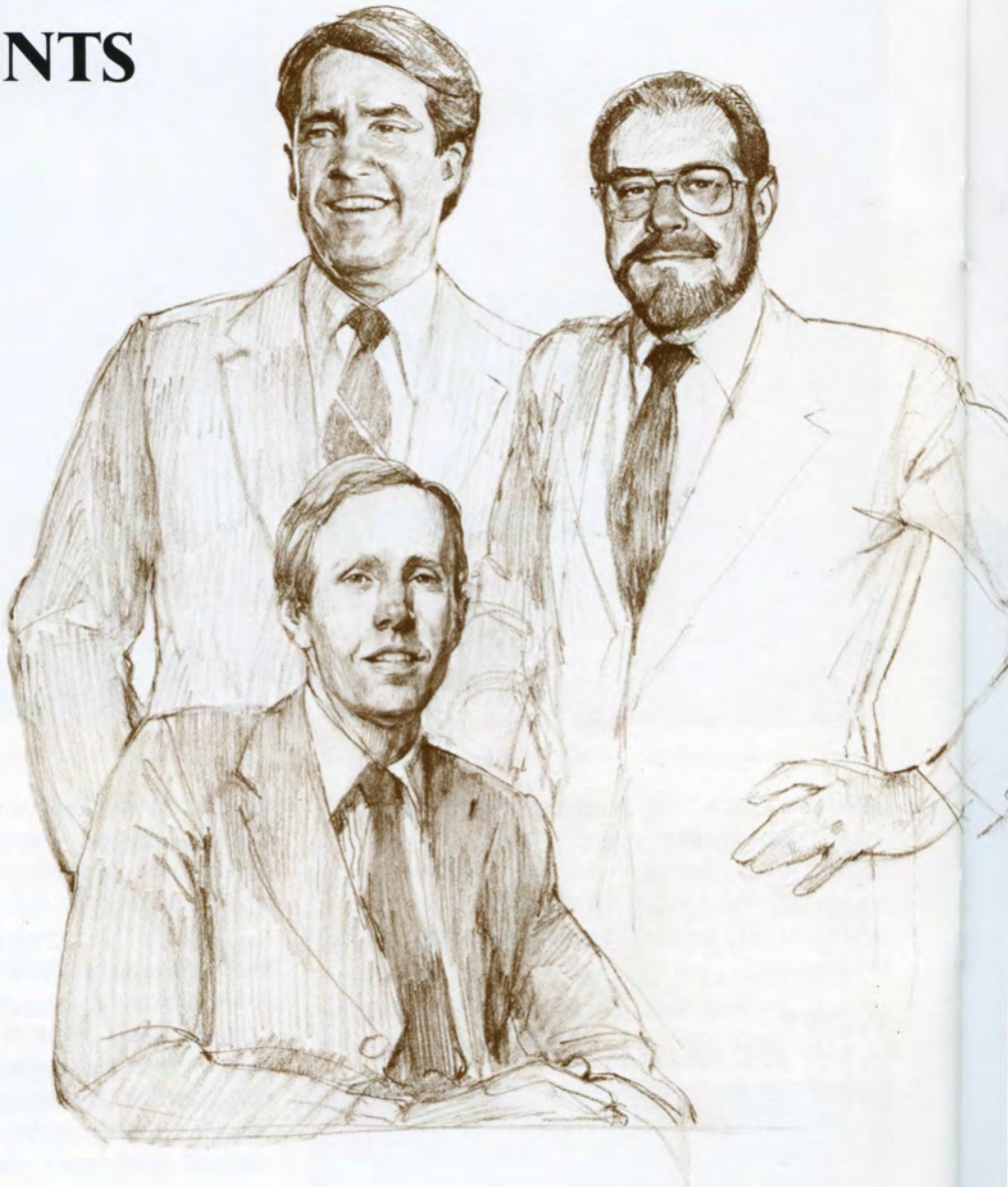
The STV decoder box is fully addressable and utilizes the Time Inc.-owned SSAVI system, which has proven to be very reliable and efficient. We not only use these boxes ourselves but sell them to other STV operators. Zenith, the manufacturer of the box, has adapted it for use by the cable industry, and we will receive a royalty on all cable boxes sold by Zenith.

STV is characterized by high initial fixed costs, resulting from decoder box investment, station rental, and marketing costs. Once the subscriber base is big enough to cover these fixed costs, however, high profit leverage is achieved from incremental revenues. We do not expect to reach this level in 1982 but operating losses will be lower than in 1981.

Another Video activity still in the developmental stage is our teletext operation scheduled for testing later this year. This system of video transmission of printed words and graphics would permit subscribers to call up on command literally thousands of "pages" of information on their TV screens.

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EXECUTIVE APPOINTMENTS



MAGAZINES

Standing, left to right
S. Christopher Meigher
Director of Circulation
David Maness
Editor—Magazine Development

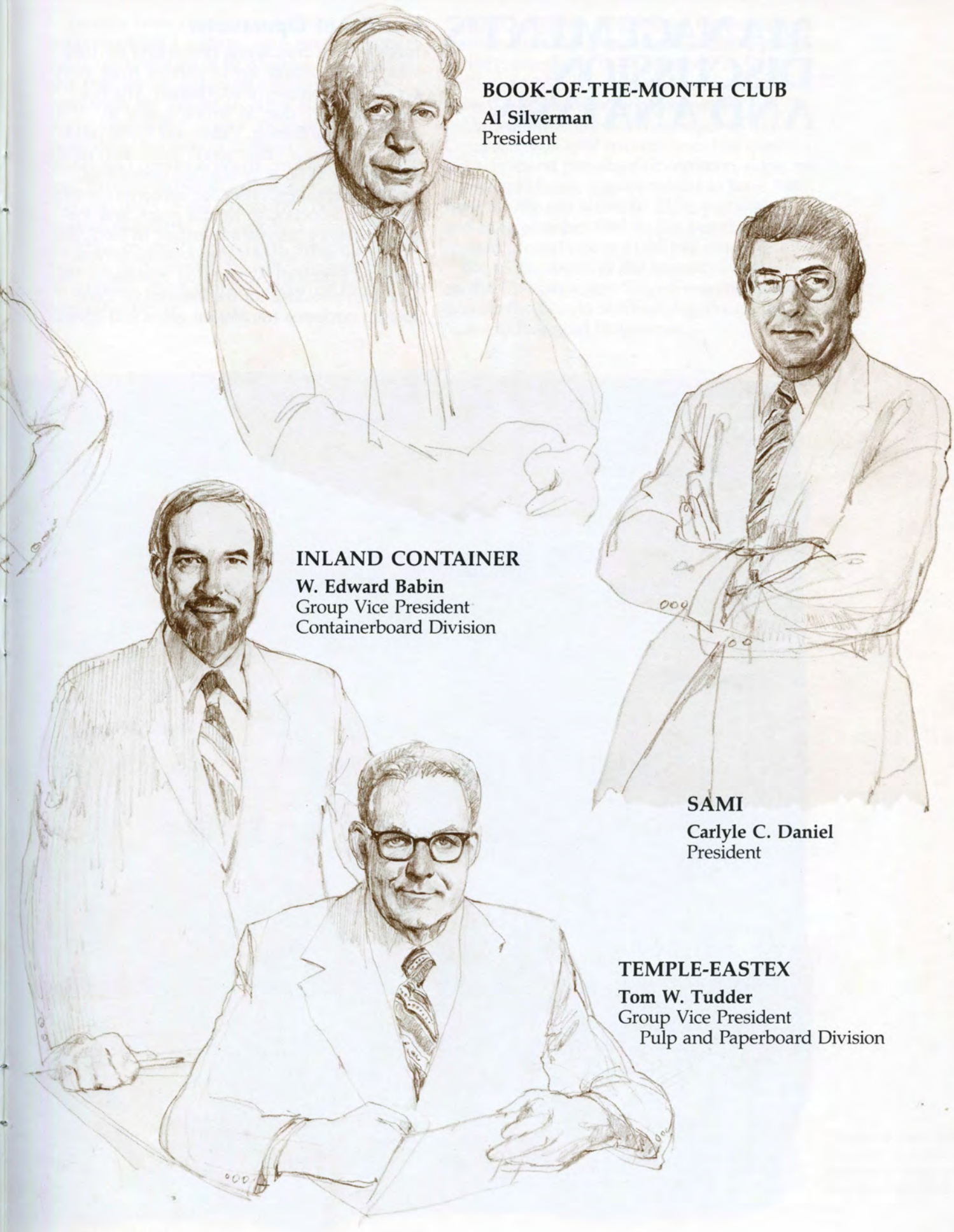
Seated
Lawrence M. Crutcher
Vice President—Magazines



CORPORATE

N. J. Nicholas Jr.
Vice President—Strategy Development

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BOOK-OF-THE-MONTH CLUB
Al Silverman
President

INLAND CONTAINER
W. Edward Babin
Group Vice President
Containerboard Division

SAMI
Carlyle C. Daniel
President

TEMPLE-EASTEX
Tom W. Tudder
Group Vice President
Pulp and Paperboard Division

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Results of Operations

Income from continuing operations for 1981 was $184.6 million, up 14 percent from 1980, on record revenues of $3.3 billion. The rise was primarily due to strong gains in magazine publishing, video and forest products operations. These gains more than offset the decline in book publishing operations, developmental expenses for subscription television, a reduction in capital gains, and foreign currency translation losses. In 1982, the Company will adopt the provisions of Statement of Financial Accounting Standards No. 52 which provides for the deferral of some foreign currency translation gains and losses.



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Income from continuing operations for 1980 was $162.1 million, up 6 percent from 1979, on revenues of $2.8 billion. Included in the 1980 results was a $9.3 million after-tax gain from the sale of an office building in Paris. Operating income increased in 1980 principally because of gains in video, container and containerboard, and book publishing. Partially offsetting these gains were the start-up costs of the Company's new monthly science magazine, *Discover,* and losses of the building products operations, which suffered because of depressed housing construction. In addition, the Company incurred higher interest expense.

The Company's effective tax rate on income from continuing operations was 37.9 percent in 1981, compared to 38.7 percent in both 1980 and 1979. The slightly lower rate in 1981 reflects higher investment tax credits.

During 1981, the common stock of the Company was split two-for-one. The quarterly dividend per share of common stock, on a post-split basis, was increased in June 1980 from 20.75¢ per share to 22.5¢ per share and in September 1981 to 25¢ per share. The current annual rate is $1.00 per share.

For a discussion of the impact of inflation on the Company, see "Supplemental Information on the Effects of Changing Prices" in Notes to Financial Statements.



Charles B. Bear (left), *group vice president;* Richard B. McKeough, *chief financial officer*

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Magazine Publishing
The Company's magazines are *Time, Fortune, Life, Sports Illustrated, Money, People* and *Discover,* the last of which began publication in October, 1980.

Magazine operating profits were up 81 percent in 1981 reflecting gains of 18 percent in advertising and 14 percent in circulation revenues over 1980. These gains resulted from both price and volume increases.

The decline in magazine operating profits in 1980 compared to 1979 was due to the launch of *Discover,* and to higher production, promotion and other costs incurred by all the magazines. Advertising revenues were up 9 percent because of price increases which more than offset a slight decline in volume. In addition, circulation revenues were up 11 percent, reflecting higher prices.

Book Publishing
The Company's book publishing operations include Time-Life Books, Book-of-the-Month Club, and Little, Brown and Company.

Book publishing operating profits were down in 1981 because Time-Life Books suffered from the recession in domestic and international markets, the negative impact of an appreciating U.S. dollar on its international operations, and the disappointing sales of a major new series introduced in the U.S. last year.

Operating profits from book publishing increased 10 percent in 1980 primarily because price increases of Time-Life Books more than offset higher editorial and production costs.

Forest Products
Forest products includes container and containerboard, pulp and paperboard, and building products.

Revenues and operating profits for container and containerboard were up in 1981 and 1980 over prior years. The growth in revenues was partially offset by increased production and material costs. Yearly volume, which remained relatively unchanged in 1980, increased slightly during 1981, while product mix in the last two years included additional containerboard exports.

Operating profits for pulp and paperboard were up in 1981 over the preceding year reflecting price increases and the favorable impact of the recently completed modernization program at the paper mill. These factors more than offset the continuing rise in costs. The increase in revenues for both 1981 and 1980 was primarily attributable to higher prices. Pulp and paperboard operating profits were up slightly in 1980 compared to 1979, but failed to keep pace with revenue gains because of inflationary pressures on costs.

The sharp decline in U.S. housing starts continued during 1981, putting home building activities in one of its longest and deepest slumps. In 1981, the Company's building products business, although depressed,

SELECTED FINANCIAL DATA

Time Incorporated and Subsidiaries (in millions except for per share amounts)	**1981**	1980
Revenues from continuing operations	**$3,296**	$2,800
Income from continuing operations before extraordinary items	**185**	162
Discontinued operations, net of taxes*	**(36)**	(21)
Income before extraordinary items	**149**	141
Extraordinary items, net of taxes	**—**	—
Net income	**149**	141
Total assets	**2,755**	2,323
Long-term debt	**489**	470
Redeemable preferred stock	**151**	208
Shareholders' equity	**1,223**	919
Dividends per common share**	**$.95**	$.8825
Earnings per share–fully diluted**		
Income from continuing operations before extraordinary items	**$3.02**	$2.88
Net income	**$2.43**	$2.51
Average shares outstanding (000)	**61,339**	56,294

*The 1981-1978 period applies to *The Washington Star* and Time-Life Films. The effect of the suspension of *Life* magazine is reflected in 1972.
**Adjusted for two-for-one common stock splits in 1981 and 1976.

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posted a slight profit as compared to a loss in 1980.

The forest products operations in 1981 also realized increased bonuses from the lease of mineral rights on the Company's Texas timberlands.

Video

Video includes Home Box Office, a pay television network; American Television and Communications, a cable television operation; and WOTV, a television station.

Video's operating profits increased 33 percent in 1981 and 38 percent in 1980 over the preceding years. This growth primarily resulted from continuing increases in subscriber levels. HBO grew to more than 8.5 million subscribers at year's end from 6 million in 1980. ATC increased to 1.8 million basic subscribers, with approximately 1.4 million subscriptions to pay programming.

WOTV's revenues and operating profits were relatively unchanged in 1981 from their record levels in 1980.

Other Activities

Other activities include Selling Areas-Marketing, Inc. (SAMI), which markets computer-generated information on the sales flow of food products; Pioneer Press, which has 28 weekly suburban Chicago publications; Temple Associates, a construction firm; and several real estate and land development activities. Operating profits were up in 1981 and 1980 from the preceding years.

Financial Condition

The ability of a company to meet its financial obligations is commonly referred to as liquidity. A number of ratios and other comparisons derived from financial statements are ordinarily used to measure a company's relative liquidity. These measurements, however, may be distorted by seasonal, economic, or nonrecurring factors.

One general measurement of near-term liquidity is working capital (current assets less current liabilities), which assumes the convertibility of receivables, inventories, and other current assets into cash. From this view of liquidity, cash flows generated from the turnover of current assets during business cycles are adequate to meet the Company's near-term obligations. Working capital was $446 million, $403 million, and $384 million, at December 31, 1981, 1980 and 1979, respectively.

Longer-term measures of liquidity usually center upon the relationship of a company's long-term financing to other balance sheet components. Working capital as a percentage of long-term debt was 91 percent, 86 percent and 93 percent at December 31, 1981, 1980 and 1979, respectively.

Capital expenditures over the last three years have increased as shown below:

	1981	1980	1979
		(in thousands)	
Purchase of property and equipment	**$261,000**	$237,000	$179,000
Acquisitions of cable television properties	**92,000**	—	—
Additional investments (primarily video)	**51,000**	24,000	25,000
Total	**$404,000**	$261,000	$204,000

1979	1978	1977	1976	1975	1974	1973	1972
$2,417	$1,636	$1,238	$1,034	$907	$822	$725	$609
152	123	91	67	45	50	50	38
(8)	(4)	—	—	—	—	—	(3)
144	119	91	67	45	50	50	35
—	7	—	—	—	—	(2)	(3)
144	126	91	67	45	50	48	32
2,063	1,769	1,053	866	760	745	690	641
413	264	128	138	118	125	110	104
230	230	33	—	—	—	—	—
795	695	519	450	398	371	356	326
$.81	$.725	$.6313	$.5375	$.50	$.50	$.475	$.475
$2.72	$2.74	$2.19	$1.66	$1.13	$1.25	$1.20	$ .92
$2.57	$2.81	$2.19	$1.66	$1.13	$1.25	$1.14	$ .77
55,916	44,794	41,392	40,384	39,898	40,124	41,520	41,492

See Notes to Financial Statements.

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External financing was required to meet a portion of these capital expenditures. In 1981, $146 million was realized from the sale of convertible preferred stock and $37 million from the issuance of subordinated notes in connection with an acquisition. This preferred stock sale provides an additional equity base for prudent expansion of debt financing to supplement cash flows from operations.

During 1980, the principal source of external financing was the sale of commercial paper which totalled $131 million at December 31, 1980. The commercial paper is supported by a bank credit facility providing for revolving credit loans of up to $250 million convertible on February 28, 1983 to a five-year term loan.

The ratio of long-term debt to total capitalization was 26 percent at year-end 1981 and 29 percent at both year-end 1980 and 1979.

Capital expenditures during 1982 are forecast to be about $450 million, primarily for the continuing development and expansion of video operations. These expenditures will be financed from both internally generated funds and external sources, including borrowings under or supported by the bank credit facility referred to above.

LINES OF BUSINESS

Time Incorporated and Subsidiaries For years ended December 31	**1981**	1980	1979	1978	1977
			(in millions)		
Revenues					
Publishing:					
Magazines	**$ 870**	$ 747	$ 680	$ 572	$ 460
Books	**519**	498	425	361	258
Total Publishing	**1,389**	1,245	1,105	933	718
Forest Products:					
Container and containerboard	**657**	579	495	55	—
Pulp and paperboard	**295**	263	222	190	183
Building products	**210**	193	209	226	177
Total Forest Products	**1,162**	1,035	926	471	360
Video	**618**	410	272	120	67
Other Activities	**127**	110	114	112	93
Total Revenues	**$3,296**	$2,800	$2,417	$1,636	$1,238
Income From Continuing Operations Before Taxes and Extraordinary Item					
Publishing:					
Magazines	**$ 102**	$ 57	$ 70	$ 66	$ 54
Books	**21**	40	37	48	44
Total Publishing	**123**	97	107	114	98
Forest Products:					
Container and containerboard	**56**	53	43	5	—
Pulp and paperboard	**48**	38	38	26	23
Building products	**3**	(4)	15	43	30
Total Forest Products	**107**	87	96	74	53
Video	**123**	93	68	25	6
Other Activities	**23**	22	21	19	15
Operating Profit	**376**	299	292	232	172
Interest expense	**(46)**	(46)	(34)	(12)	(10)
Corporate and other income and expense	**(38)**	(13)	(11)	1	(2)
Foreign currency translation gain (loss)	**(8)**	—	(3)	3	2
Gain (loss) on sale of property and equipment	**13**	25	5	(2)	—
Income From Continuing Operations Before Taxes and Extraordinary Item	**$ 297**	$ 265	$ 249	$ 222	$ 162

Container and Containerboard and Video, respectively, includes the activity of Inland Container Corporation and American Television and Communications Corporation from November 14, 1978, the date of their acquisition by the Company. See "Business Segment Information" in Notes to Financial Statements.

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LINES OF BUSINESS

Time Incorporated and Subsidiaries For years ended December 31	**1981**	1980	1979
		(in millions)	
Identifiable Assets			
Publishing:			
Magazines	**$ 124**	$ 109	$ 104
Books	**453**	412	376
Total Publishing	**577**	521	480
Forest Products:			
Container and containerboard	**522**	482	445
Pulp and paperboard	**332**	315	251
Building products	**211**	195	179
Total Forest Products	**1,065**	992	875
Video	**863**	597	428
Other Activities	**54**	38	71
Total	**2,559**	2,148	1,854
Corporate	**63**	41	113
Investments in affiliated companies	**102**	67	52
Net assets of discontinued operations	**31**	67	44
Total	**$2,755**	$2,323	$2,063
Results by Geographic Area			
Revenues:			
U.S.			
Sales to unaffiliated customers	**$2,968**	$2,505	$2,163
Transfers between geographic areas	**7**	8	8
	2,975	2,513	2,171
Foreign Countries			
Sales to unaffiliated customers	**328**	295	255
Transfers between geographic areas	**4**	7	7
	332	302	262
Eliminations	**(11)**	(15)	(16)
Total	**$3,296**	$2,800	$2,417
Operating Profit:			
U.S.	**$ 330**	$ 257	$ 253
Foreign Countries	**46**	42	39
Total	**$ 376**	$ 299	$ 292
Identifiable Assets:			
U.S.	**$2,312**	$1,931	$1,684
Foreign Countries	**247**	217	170
Total	**$2,559**	$2,148	$1,854
Liabilities:			
U.S.	**$1,284**	$1,103	$ 958
Foreign Countries	**97**	93	80
Total	**$1,381**	$1,196	$1,038

See "Business Segment Information" in Notes to Financial Statements.

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Time Inc.'s headquarters are in the Time & Life Building at Rockefeller Center, New York.

SUMMARY OF QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

	Three Months Ended			
1981	March 31	June 30	Sept. 30	Dec. 31
	(in millions except for per share amounts)			
Revenues	**$ 733**	**$ 841**	**$ 808**	**$ 914**
Gross Profit	**233**	**317**	**294**	**341**
Income From Continuing Operations	**41**	**52**	**39**	**53**
Discontinued Operations*	**(14)**	**(3)**	**(19)**	**—**
Net Income	**27**	**49**	**20**	**53**
Earnings Per Share:**				
Income From Continuing Operations	**$ .68**	**$ .84**	**$ .63**	**$ .86**
Discontinued Operations	**(.23)**	**(.04)**	**(.31)**	**—**
Net Income	**$ .45**	**$ .80**	**$ .32**	**$ .86**
1980				
Revenues	$ 647	$ 680	$ 678	$ 795
Gross Profit	214	249	227	293
Income From Continuing Operations	32	44	39	47
Discontinued Operations*	(4)	(3)	(6)	(8)
Net Income	28	41	33	39
Earnings Per Share**:				
Income From Continuing Operations	$ .57	$ .79	$ .69	$ .83
Discontinued Operations	(.07)	(.06)	(.10)	(.14)
Net Income	$ .50	$ .73	$ .59	$ .69

*See "Discontinued Operations" in Notes to Financial Statements.
**Adjusted for 1981 two-for-one common stock split.

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FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF INCOME

Time Incorporated and Subsidiaries
For years ended December 31

	1981	1980*	1979*
	(in thousands except for per share amounts)		
Revenues	**$3,296,382**	$2,800,013	$2,416,548
Costs and Expenses			
Editorial, production, manufacturing, and distribution	**2,111,726**	1,816,781	1,584,334
Selling, administrative, and general	**866,456**	722,682	578,246
Total Costs and Expenses	**2,978,182**	2,539,463	2,162,580
Operating Income	**318,200**	260,550	253,968
Other income—net	**25,218**	49,572	28,625
Less interest expense	**46,350**	45,549	34,007
Income From Continuing Operations Before Taxes	**297,068**	264,573	248,586
Taxes on income	**112,500**	102,500	96,300
Income From Continuing Operations	**184,568**	162,073	152,286
Discontinued Operations:			
Operating loss—net of income tax credit	**(9,157)**	(20,870)	(8,364)
Provision for loss on disposals—net of income tax credit of $21,207,000	**(26,590)**	—	—
Total Discontinued Operations	**(35,747)**	(20,870)	(8,364)
Net Income	**$ 148,821**	$ 141,203	$ 143,922
Earnings Per Share:**			
Income from Continuing Operations	**$3.02**	$2.88	$2.72
Discontinued Operations:			
Operating loss	**(.15)**	(.37)	(.15)
Provision for loss on disposals	**(.44)**	—	—
Total Discontinued Operations	**(.59)**	(.37)	(.15)
Net Income	**$2.43**	$2.51	$2.57
Average Shares Outstanding**	**61,339**	56,294	55,916

*Reclassified for continuing operations.
**Adjusted for 1981 two-for-one common stock split.

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

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CONSOLIDATED BALANCE SHEET

Time Incorporated and Subsidiaries
As of December 31

	1981	1980*
	(in thousands)	
ASSETS		
Current Assets		
Cash	**$ 22,280**	$ 20,308
U.S. Government and other short-term securities—at cost (approximately market)	**34,550**	12,887
Receivables, less allowances of $67,547,000 in 1981 and $56,525,000 in 1980	**422,537**	376,165
Inventories—at lower of cost or market:		
Work in process and finished goods	**166,404**	151,878
Paper and other materials	**102,809**	93,141
Prepaid programming, promotion and other	**203,458**	158,763
Total Current Assets	**952,038**	813,142
Investments		
Affiliated companies	**102,328**	67,128
Others	**11,584**	12,223
Total Investments	**113,912**	79,351
Property and Equipment—at cost		
Buildings	**170,329**	150,832
Machinery and equipment	**1,260,596**	1,014,169
	1,430,925	1,165,001
Less allowances for depreciation and amortization	**(445,476)**	(358,421)
	985,449	806,580
Timber and timberlands, less depletion	**84,034**	74,854
Georgia Kraft—mill operating properties and timberlands	**222,923**	204,680
Land	**17,166**	15,485
Total Property and Equipment	**1,309,572**	1,101,599
Cable Television Franchises, less amortization	**97,107**	39,042
Goodwill, less amortization	**139,894**	150,231
Other Assets	**111,029**	72,423
Net Assets of Discontinued Operations	**31,207**	66,833
TOTAL ASSETS	**$2,754,759**	$2,322,621

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

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	1981	1980*
	(in thousands)	
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued expenses	**$ 406,657**	$ 322,938
Employee compensation and benefits	**45,441**	35,388
Taxes on income	**14,361**	14,549
Loans and current portion of long-term debt	**39,375**	37,119
Total Current Liabilities	**505,834**	409,994
Unearned Portion of Paid Subscriptions	**192,900**	173,738
Long-Term Debt	**489,151**	469,565
Deferred Federal Income Taxes	**155,274**	113,662
Other Liabilities	**37,843**	29,339
Redeemable Preferred Stock		
Series B $1.575 Cumulative Convertible Preferred Stock—$1 par value; authorized 12,500,000 shares; issued and outstanding 4,835,800 shares in 1981 and 6,554,700 shares in 1980	**4,836**	6,555
Additional paid-in capital	**146,203**	201,035
Total Redeemable Preferred Stock	**151,039**	207,590
Shareholders' Equity		
Series C $4.50 Cumulative Convertible Preferred Stock—$1 par value; authorized, issued and outstanding 3,000,000 shares—at stated value	**145,580**	—
Common Stock—$1 par value; authorized 150,000,000 shares; issued 49,819,700 shares in 1981 and 46,615,600 shares in 1980	**49,820**	46,616
Additional paid-in capital	**204,347**	131,689
Retained income	**823,475**	740,932
Treasury stock, at cost; common shares—55,000 in 1981 and 1980	**(504)**	(504)
Total Shareholders' Equity	**1,222,718**	918,733
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$2,754,759**	$2,322,621

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CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

Time Incorporated and Subsidiaries	Series C Convertible Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Income	Treasury Stock
			(in thousands)		
Balance at December 31, 1978	—	$ 22,675	$121,437	$555,801	$ (4,711)
Retroactive application of 1981 stock split	—	22,675	(22,675)	—	—
Retroactive restatement for change in accounting for compensated absences	—	—	—	(855)	—
Net income	—	—	—	143,922	—
Stock options exercised	—	—	2,062	—	1,457
Conversion of Series B Preferred Stock into Common Stock	—	48	1,031	—	—
Acquisitions of treasury shares	—	—	—	—	(5,720)
Issuance of treasury shares for acquisition	—	—	343	—	5,671
Dividends paid on Series B Preferred Stock–$1.575 per share	—	—	—	(11,351)	—
Dividends paid on Common Stock–$.81 per share	—	—	—	(36,431)	—
Balance at December 31, 1979	—	$ 45,398	$102,198	$651,086	$ (3,303)
Net income	—	—	—	141,203	—
Stock options exercised	—	226	8,123	—	2,799
Conversion of Series B Preferred Stock into Common Stock	—	992	21,368	—	—
Dividends paid on Series B Preferred Stock–$1.575 per share	—	—	—	(10,912)	—
Dividends paid on Common Stock–$.8825 per share	—	—	—	(40,445)	—
Balance at December 31, 1980	—	$ 46,616	$131,689	$740,932	$ (504)
Net income	—	—	—	148,821	—
Stock options exercised	—	375	7,765	—	—
Stock issued for benefit plans	—	295	10,277	—	—
Issuance of Series C Preferred Stock	$145,580	—	—	—	—
Conversion of Series B Preferred Stock into Common Stock	—	2,534	54,616	—	—
Dividends paid on Series B Preferred Stock–$1.575 per share	—	—	—	(9,201)	—
Dividends paid on Series C Preferred Stock–$3.8125 per share	—	—	—	(11,438)	—
Dividends paid on Common Stock–$.95 per share	—	—	—	(45,639)	—
Balance at December 31, 1981	$145,580	$ 49,820	$204,347	$823,475	$ (504)

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

ANALYSIS OF WORKING CAPITAL ITEMS

Time Incorporated and Subsidiaries For years ended December 31	**1981**	1980*	1979*
		(in thousands)	
Receivables	**$ 46,372**	$ 47,696	$ 73,367
Inventories	**24,194**	9,030	44,958
Prepaid programming, promotion and other	**44,695**	38,472	26,204
Accounts payable and accrued expenses	**(83,719)**	(28,329)	(24,505)
Employee compensation and benefits	**(10,053)**	(1,759)	(4,354)
Taxes on income	**188**	(10,677)	19,573
Loans and current portion of long-term debt	**(2,256)**	5,087	(4,563)
Increase in working capital excluding changes in cash and short-term securities	**$ 19,421**	$ 59,520	$130,680

*Restated

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CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Time Incorporated and Subsidiaries For years ended December 31	**1981**	1980*	1979*
		(in thousands)	
Financial resources were provided:			
From operations:			
Income from continuing operations	**$184,568**	$162,073	$152,286
Charges (credits) not affecting funds flow:			
Depreciation, amortization, and depletion	**100,630**	80,835	61,825
Amortization of intangibles	**8,929**	6,213	5,904
Deferred federal income taxes	**41,612**	33,748	16,413
Unremitted earnings of affiliated companies	**(9,441)**	(25,460)	(16,005)
Total from continuing operations	**326,298**	257,409	220,423
Less discontinued operations	**(33,994)**	(18,422)	(5,945)
Total from operations	**292,304**	238,987	214,478
From other internal sources:			
Decrease (increase) in net assets of discontinued operations	**33,873**	(24,829)	(20,336)
Dispositions:			
Property and equipment	**5,919**	19,994	9,725
Investments	**6,169**	23,726	10,388
Increase in unearned portion of paid subscriptions	**19,162**	25,221	14,129
Miscellaneous	**5,144**	347	(12,112)
Total from other internal sources	**70,267**	44,459	1,794
Total financial resources provided from operations and other internal sources	**362,571**	283,446	216,272
Financial resources were used for:			
Capital expenditures:			
Purchase of property and equipment	**261,048**	237,217	179,077
Acquisitions of cable television properties	**91,510**	—	—
Additions to investments (primarily video)	**51,494**	24,047	25,401
Total capital expenditures	**404,052**	261,264	204,478
Dividends paid to shareholders	**66,278**	51,357	47,782
Reduction of long-term debt	**74,741**	23,705	38,068
Change in other assets and other liabilities	**33,662**	19,754	2,020
Change in working capital items**	**19,421**	59,520	130,680
Total financial resources used	**598,154**	415,600	423,028
Net financial resources used before financing activities	**(235,583)**	(132,154)	(206,756)
Funds from financing activities:			
Increase in long-term debt	**94,327**	80,158	187,114
Issuance of Series C Preferred Stock	**145,580**	—	—
Issuance of Series B Preferred, Common and treasury stock	**19,311**	11,565	10,167
Total funds from financing activities	**259,218**	91,723	197,281
Increase (decrease) in cash and short-term securities	**$ 23,635**	$(40,431)	$ (9,475)

*Restated

**Analysis of these working capital items is on page 46.

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

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NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies

Basis of Consolidation. The consolidated financial statements include the accounts of the Company and its subsidiaries (except its mortgage banking and real-estate investment subsidiaries). Unconsolidated subsidiaries and companies 20 percent to 50 percent owned are referred to as affiliated companies and are reflected in the financial statements on the equity basis.

Statement Presentation. In 1981, the Consolidated Statement of Changes in Financial Position was modified from a working capital funds flow to a cash flow statement. Amounts for 1980 and 1979 have been reclassified to the new basis of presentation.

Inventories. Cost of inventories amounting to $67,865,000 in 1981 and $62,644,000 in 1980 was determined by the last-in, first-out method (LIFO). The cost of the remaining inventories of $201,348,000 in 1981 and $182,375,000 in 1980 was determined principally by the first-in, first-out method (FIFO).

If the FIFO method of inventory accounting had been applied to those inventories which were costed on the LIFO method, inventories would have been $33,091,000 and $26,140,000 higher than reported at December 31, 1981 and 1980, respectively.

The LIFO tax basis of inventories of a subsidiary is $8,530,000 less than the amount reported in the consolidated financial statements due to the allocation of purchase price.

Depreciation, Amortization, and Depletion. Depreciation and amortization is computed primarily by the straight-line method over the estimated useful lives of the assets; certain properties are being depreciated based on operating hours. Charges for timber depletion are based on the unit cost of timber harvested during the year.

Goodwill. Excess of purchase prices over net assets of acquired properties (net of amortization of $15,536,000 and $10,297,000 in 1981 and 1980, respectively) is being amortized principally over 40 years.

Unearned Portion of Paid Subscriptions. Paid magazine subscriptions are deferred at the time of sale. As magazines are delivered to subscribers, proportionate shares of the gross subscription price are credited to revenues. Costs connected 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.

Earnings Per Share. Earnings per share was based on the weighted average shares of outstanding Common Stock and common stock equivalents. Common stock equivalents include Series B Convertible Preferred Stock, outstanding stock options and, beginning in 1981, Series C Convertible Preferred Stock and subordinated convertible notes. Primary earnings per share are the same as fully diluted earnings per share.

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 translation losses were approximately $7,900,000 and $2,683,000 in 1981 and 1979. In 1980 translation gains and losses were offsetting. In 1982, the Company will adopt the provisions of Statement of Financial Accounting Standards No. 52, "Foreign Currency Translation."

Common Stock

All share and per share information included herein have been adjusted to reflect the two-for-one Common Stock split distributed on October 1, 1981. An increase in the number of authorized shares of Common Stock from 70,000,000 to 150,000,000 was approved by the shareholders during 1981.

Accounting Change

Effective January 1, 1981, as a result of Statement of Financial Accounting Standards No. 43, "Accounting for Compensated Absences," the Company has accounted for the cost of employees' compensated absences as they are earned rather than when paid. As required by the Statement, the Company has restated retained income as of December 31, 1978 resulting in a decrease of approximately $855,000. The change in net income for 1979 and 1980 was not material and is reflected in the 1981 statement of income.

Discontinued Operations

During the first quarter of 1981, Time-Life Films discontinued its television and motion picture business. In addition, during the third quarter, the Company ceased publication of *The Washington Star.* Accordingly, the Consolidated Financial Statements have been reclassified to report separately these discontinued operations.

Operating losses from discontinued operations are net of income tax credits amounting to $8,000,000, $21,000,000, and $9,300,000 for 1981, 1980, and 1979, respectively.

The major portion of Time-Life Films' assets (TV syndication inventory) is currently being offered for distribution through a negotiated syndication agreement. Substantially all of the assets of *The Washington Star* have been sold.

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BOARD OF DIRECTORS

The 24 members of the Board of Directors of Time Inc. sketched on the following pages were elected to the board in the years shown under their names.



J. RICHARD MUNRO
President and Chief Executive Officer
(1978)

RALPH P. DAVIDSON
Chairman of the Board
(1980)

At December 31, 1981 and 1980, approximately $32,273,000 and $49,279,000 of liabilities, respectively, applicable to Time-Life Films and *The Washington Star,* have been included in "Net Assets of Discontinued Operations".

Revenues applicable to discontinued operations were approximately $41,024,000, $81,770,000, and $87,512,000 for 1981, 1980 and 1979, respectively.

Investments in Affiliated Companies

The Company's 50 percent investment in Georgia Kraft Company 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 the Company's linerboard raw material requirements. Likewise, the Company's equity in operating income of Georgia Kraft is recorded as a reduction of manufacturing costs and its share of related income taxes is included in Taxes On Income. The Company's investment exceeds its equity in Georgia Kraft's net assets by the amount of purchase price allocated to Georgia Kraft less amortization.

Under a long-term purchase contract, the Company is obligated to purchase one-half of the linerboard production of Georgia Kraft at prices which provide Georgia Kraft with a recovery of all costs and expenses and a stated return on its net equity.

The Company's purchases of Georgia Kraft output were $168,000,000 in 1981, $138,000,000 in 1980 and $113,000,000 in 1979. The Company's current account payable to Georgia Kraft was $36,000,000 in 1981 and $27,000,000 in 1980.

Summary financial information for Georgia Kraft Company is as follows:

	1981	1980	1979
		(in thousands)	
Total revenues	**$466,363**	$377,313	$297,303
Income before taxes	**51,059**	42,756	36,012
Net income	**37,271**	35,014	28,103
Current assets	**120,242**	107,428	82,022
Noncurrent assets	**423,789**	400,261	325,857
Current liabilities	**46,046**	82,984	58,030
Noncurrent liabilities	**244,640**	208,631	168,789

Leases

	1981	1980	1979
		(in thousands)	
Total rental expense	**$35,819**	$34,739	$24,110
Less sublease rental income	**1,748**	3,525	1,962
Net rental expense	**$34,071**	$31,214	$22,148

The future minimum lease payments, as of December 31, 1981, under capital leases and non-cancellable operating leases were as follows:

	Capital Leases	Operating Leases
	(in thousands)	
1982	$ 6,293	$ 29,534
1983	4,863	33,052
1984	2,005	29,005
1985	861	25,998
1986	734	25,865
Thereafter	3,422	251,773
Net minimum lease payments	18,178	$395,227
Less amount representing interest	(4,543)	
Present value of net minimum lease payments	$ 13,635	
Aggregate future sublease rentals		$ 3,475

The Company's capital leases are included in the Consolidated Balance Sheet as follows:

	1981	1980
	(in thousands)	
Property and equipment—at cost	**$40,918**	$21,091
Less accumulated depreciation	**12,205**	8,718
Assets recorded under capital leases	**$28,713**	$12,373

Long-Term Debt

The $150 million 9⅜ percent debentures are subject to a mandatory sinking fund beginning April 1990 and are redeemable, subject to certain conditions, at the option of the Company.

The 11¼ percent subordinated convertible notes are presently convertible into 28.98 shares of Common Stock for each $1,000 principal amount of such notes.

The Company has a revolving credit agreement with a group of banks aggregating $250 million, a portion of which was used to support the Company's commercial paper borrowings of $86 million as of December 31, 1981. The Company can convert any portion of the $250 million into a five-year term loan on February 28, 1983.

At December 31, 1981, consolidated net current assets were approximately $231 million in excess of the minimum requirements under the most restrictive provisions of the Company's loan agreements, and approximately $255 million of consolidated retained income was unrestricted as to the payment of dividends. At December 31, 1981, property and equipment of approximately $260 million was subject to liens in connection with $47 million of debt.

Certain consolidated and unconsolidated subsidiaries are restricted from the payment of dividends to the parent company in excess of certain specified amounts. However, the consolidated retained income so restricted was not material.

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LOUIS BANKS
Adjunct Prof. of Management
Alfred P. Sloan School of
Management, M.I.T. (1973)

CHARLES B. BEAR
Group Vice President
and Secretary
(1977)

JAMES F. BERÉ
Chairman and Chief
Executive Officer, Borg-
Warner Corp. (1979)

JOE C. DENMAN JR.
Group Vice President
(1979)

The Company's share of undistributed earnings of its affiliated companies included in retained income was $65.1 million and $56.2 million at December 31, 1981 and 1980, respectively.

Total interest incurred was $51.2 million, $51.0 million and $35.2 million of which $4.8 million, $5.5 million and $1.2 million was capitalized in 1981, 1980 and 1979, respectively.

Aggregate maturities of long-term debt (including capital leases) during the next five years are as follows: 1982—$39,375,000; 1983—$33,895,000; 1984—$61,187,000; 1985—$29,419,000; 1986—$84,707,000.

Long-term debt consists of the following:

	1981	1980
	(in thousands)	
9⅜% Sinking fund debentures due 2009	**$150,000**	$150,000
Commercial paper—supported by a revolving credit agreement with banks	**85,733**	131,000
7⅛% Notes due January 1986	**50,000**	50,000
7.9% Promissory notes due through 1994	**19,080**	20,640
10.95% Notes due through 1991	**17,280**	19,200
8½% Notes due through 1989	**13,350**	15,700
5⅜% Sinking fund first-mortgage bonds due through 1985	**9,900**	13,200
6½% Mortgage notes due through 1990	**13,220**	14,469
Industrial revenue and pollution control bonds due through 2007, weighted average interest rate of 7.5% and 8.1% as of December 31, 1981 and 1980, respectively.	**39,077**	17,706
Lease obligations due through 1997	**8,620**	6,128
Other notes due through 2015, weighted average interest rate of 9.6% and 8.1% as of December 31, 1981 and 1980, respectively.	**39,659**	21,722
	445,919	459,765
Subordinated debt:		
9½% Subordinated debentures due through 1995	**9,100**	9,800
11¼% Subordinated convertible notes due 1987–1991	**23,460**	—
11¼% Subordinated notes due through 1986	**10,672**	—
Total subordinated debt	**43,232**	9,800
	$489,151	$469,565

Redeemable Preferred Stock

Each share of Series B Preferred Stock is entitled to 1.3 votes, voting with Common Stock as a single class, and is redeemable pursuant to a mandatory sinking fund commencing on July 1, 1984. The Company is required to redeem 358,200 shares of Series B Preferred Stock on July 1 of each year commencing in 1984, at $30 per share ($10,746,000 in 1984, 1985 and 1986). Additionally, commencing on July 1, 1986, the Series B Preferred Stock becomes redeemable at the option of the Company, at prices ranging from $30.90 per share in the 12-month period beginning July 1, 1986, to $30 per share on and after July 1, 1989. Each share of Series B Preferred Stock is presently convertible into 1.44 shares of Common Stock, subject to adjustment upon the occurrence of certain events of dilution, including stock splits and stock distributions.

If the Company defaults in the payment of six quarterly dividends on the Series B Preferred Stock, the holders of Series B Preferred Stock, voting as a class with the holders of shares of other series of Preferred Stock so entitled, including the Series C Preferred Stock, will have the right to elect two additional directors until all dividends in default have been paid.

The stated redemption requirement and involuntary liquidation preference was $145,074,000 in 1981 and $196,641,000 in 1980.

Changes in Series B Preferred Stock are as follows:

	1981	1980	1979
		(in thousands)	
Balance at January 1	**$207,590**	$229,533	$229,978
Stock options exercised	**599**	417	634
Conversion to Common Stock	**(57,150)**	(22,360)	(1,079)
Balance at December 31	**$151,039**	$207,590	$229,533

Series C Preferred Stock

The Series C Preferred Stock is redeemable at any time at the option of the Company at $54.50 per share if redeemed prior to February 1, 1982 and at decreasing prices thereafter to and including January 31, 1991 and thereafter at $50 per share.

Each share of Series C Preferred Stock is presently convertible into 1.5152 shares of Common Stock, subject to adjustment upon the occurrence of certain events of dilution including stock splits and stock distributions.

If the Company defaults in the payment of six quarterly dividends on the Series C Preferred Stock, the holders of Series C Preferred Stock, voting as a class with the holders of shares of other series of Preferred Stock so entitled, including the Series B Preferred Stock, will have the right to elect two additional directors until all dividends in default have been paid.

Except in situations in which the New York Business Corporation Law provides for a class vote by holders of Series C Preferred Stock as a series or with other series of Preferred Stock or as set forth above, holders of Series C Preferred Stock are not entitled to vote on matters submitted to a vote at a meeting of shareholders.

The stated liquidation preference is $50 per share, or $150 million as of December 31, 1981.

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MICHAEL D. DINGMAN
Chairman, Pres., and Chief Executive Officer, Wheelabrator-Frye Inc. (1978)

HENRY C. GOODRICH
Chairman and Chief Exec. Officer, Sonat Inc. (1978)

RALPH GRAVES
Editorial Director (1979)

CLIFFORD J. GRUM
Executive Vice President (1980)

Stock Options

At December 31, 1981 the Company had various stock option plans pursuant to which options to purchase Common Stock and Series B Preferred Stock at fair market value at the date of grant were outstanding. Except for options granted under the 1981 Plan, the options were originally intended to be either qualified or nonqualified.

Both incentive stock options and nonqualified options are outstanding under the 1981 Plan. The right to exercise options granted under the 1981 Plan is subject to shareholder approval of the Plan. Each of the other stock option plans was approved by the shareholders.

Under the Tax Reform Act of 1976, any qualified option which was outstanding after May 21, 1981 became a nonqualified option. As permitted by the Economic Recovery Tax Act of 1981, the Company intends to convert certain options granted since January 1, 1976 to incentive options.

Options granted for common and preferred shares are exercisable at various dates, but no later than ten years from date of grant. There were 1,323,749 and 344,700 common shares available for granting of options at December 31, 1981 and 1980, respectively. There were no charges or credits to income in connection with options exercised. A summary of activity under all plans is presented below, restated to reflect the 1981 two-for-one common stock split:

	Common Stock		Series B Preferred Stock	
1981	Number of Shares	Price Per Share	Number of Shares	Price Per Share
Outstanding at January 1	2,291,370	$10–26	101,130	$ 4–21
Granted	1,043,851	$28–38	—	—
Exercised	(381,618)	$10–26	(41,235)	$ 9–21
Surrendered	(117,800)	$10–26	(1,085)	$15–21
Terminated	(22,900)	$20–26	—	—
Outstanding at December 31	2,812,903	$10–38	58,810	$ 4–21
Exercisable at December 31	1,798,612		45,542	
1980				
Exercised	458,096	$10–26	27,710	$ 4–21
Exercisable at December 31	2,142,750		72,114	
1979				
Exercised	136,432	$ 9–22	72,390	$ 4–16

Taxes on Income

The components of domestic and foreign income from continuing operations before taxes consisted of the following:

	1981	1980	1979
		(in thousands)	
Domestic	**$264,267**	$205,119	$212,020
Foreign	**32,801**	59,454	36,566
Total	**$297,068**	$264,573	$248,586

Taxes on income consisted of the following:

	1981		1980		1979	
	Current	**Deferred**	Current	Deferred	Current	Deferred
			(in thousands)			
Federal	**$ 23,126**	**$ 33,640**	$ 16,338	$ 35,676	$ 31,003	$ 30,471
Foreign	**8,619**	**—**	13,194	87	11,898	216
State and local	**17,915**	**—**	16,205	—	13,412	—
	$ 49,660	**$ 33,640**	$ 45,737	$ 35,763	$ 56,313	$ 30,687

Income tax expense is included in the Consolidated Statement of Income as follows:

	1981	1980	1979
		(in thousands)	
Continuing operations	**$112,500**	$102,500	$96,300
Discontinued operations	**(29,200)**	(21,000)	(9,300)
	$ 83,300	$ 81,500	$ 87,000

The differences between the consolidated effective income tax rate and the federal statutory income tax rate of 46 percent include the following:

	1981	1980	1979
		(in thousands)	
Taxes on income at statutory rate	**$106,778**	$102,443	$106,224
Investment tax credits	**(29,510)**	(23,914)	(18,834)
Tax benefit of capital gains, mainly from the harvesting and sale of fee-owned timber	**(9,313)**	(9,255)	(10,507)
Effect of state and local income taxes	**9,677**	8,750	7,243
All other	**5,668**	3,476	2,874
	$ 83,300	$ 81,500	$ 87,000

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HENRY GRUNWALD
Editor-in-Chief
(1979)

ALEXANDER HEARD
Chancellor, Vanderbilt University
(1968)

MATINA S. HORNER
President, Radcliffe College
(1975)

DAVID T. KEARNS
Pres. and Chief Operating Officer, Xerox Corporation
(1978)

The Company's share of Georgia Kraft's tax related items included above for 1981, 1980 and 1979 were: investment tax credits of $3,936,800, $3,794,500 and $3,488,000; tax benefit of capital gains of $1,502,000, $1,251,100 and $1,505,000; tax effect of state and local taxes of $605,600, $482,000 and $527,000, respectively.

The amount of unremitted earnings of foreign subsidiaries, considered permanently reinvested to finance operations in foreign countries, was approximately $18 million (after reduction for available foreign tax credits) at December 31, 1981.

Deferred income taxes have been provided for certain items of income and expense that are recognized at different times for tax and financial reporting purposes as follows:

	1981	1980	1979
		(in thousands)	
Accelerated depreciation	**$29,007**	$19,696	$13,796
Reserve for litigation	**1,530**	—	9,152
Unremitted foreign earnings	**4,000**	13,100	—
Reserve for shutdown of discontinued operations	**(7,533)**	—	—
All other	**6,636**	2,967	7,739
	$33,640	$35,763	$30,687

The Company's share of Georgia Kraft's deferred tax resulting from accelerated depreciation included above was $4,714,000, $3,286,000 and $2,057,000 in 1981, 1980 and 1979, respectively.

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

Other Income—Net

	1981	1980	1979
		(in thousands)	
Dividends	**$ 247**	$ 381	$ 724
Interest income	**11,663**	7,873	5,843
Net realized gain on securities	**5,888**	5,661	3,709
Equity in income of affiliated companies*	**(5,142)**	4,746	5,715
Royalties and ancillary sales	**3,136**	5,281	5,110
Gain on sale of property and equipment	**12,602**	24,508	4,897
Miscellaneous	**(3,176)**	1,122	2,627
	$25,218	$49,572	$28,625

*Excluding Georgia Kraft.

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 $26 million in 1981, $24 million in 1980, and $20 million in 1979, 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 accordance with Statement of Financial Accounting Standards Nos. 35 and 36, accumulated benefit information, as estimated by consulting actuaries, and net assets for the Company's retirement plans as of January 1, 1981 (the date of the latest actuarial valuation) were as follows:

Actuarial present value of accumulated plan benefits:	(in thousands)
Vested	$173,927
Non-vested	19,070
	$192,997
Net assets available for benefits	$175,825

The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 6 percent.

Contingencies

Since 1977 Inland Container Corporation and numerous other corporate defendants have been named in private antitrust actions, most purporting to be class actions, alleging a nationwide combination and conspiracy to fix, raise, maintain and stabilize the prices of corrugated containers in violation of the Sherman Act. During 1979 separate settlement agreements with the class action plaintiffs were reached pursuant to which Inland paid an aggregate of $34.6 million. These settlements were approved by the Court, but various parties appealed such approval. On April 3, 1981, the appellate court remanded the matter back to the lower court for further findings with respect to the fairness and adequacy of the settlement. On October 29, 1981, the appellate court affirmed the lower court's further findings with respect to the fairness and adequacy of the settlement. A number of purchasers of corrugated containers have elected to exclude themselves from the settlement and approximately eighteen filed separate antitrust treble damage actions against Inland and others. Inland has settled fourteen of these actions, leaving four remaining for trial during 1982.

In addition, on July 10, 1978, Inland was served with a complaint as one of numerous corporate defendants in a class action filed in the Spartanburg County, South Carolina State Court, alleging a conspiracy among defendants to fix prices of corrugated containers and sheets in violation of South Carolina statutes and seeking $200 million in damages against the class action defendants. The action was transferred to the United States Dis-

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ROBERT T. KEELER
Partner, Taft, Stettinius & Hollister
(1975)

SOL M. LINOWITZ
Senior Partner, Coudert Brothers
(1969)

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

JOAN D. MANLEY
Group Vice President
(1978)

trict Court for the Southern District of Texas, which has dismissed the action in a ruling which was affirmed on appeal. Further, on March 22, 1979, a complaint was filed in the Superior Court of California, San Francisco County, against Inland and numerous other corporate defendants on behalf of a class of indirect purchasers of corrugated containers, alleging a conspiracy among defendants to fix prices of corrugated containers and sheets in violation of California statutes and seeking treble damages in an unspecified amount. Inland has orally agreed to settle the action.

An unrelated private antitrust action, purporting to be a class action, was filed in September 1977, in the United States District Court for the Eastern District of Pennsylvania, by certain purchasers of kraft linerboard used in the manufacture of corrugated boxes against fourteen manufacturers, including Inland, of both kraft linerboard and corrugated boxes. The action alleges a nationwide combination and conspiracy to fix the prices of kraft linerboard, corrugating medium and corrugated boxes and to monopolize the manufacture, distribution, sale and shipment of corrugated boxes. The complaint seeks injunctive relief, treble damages in an unspecified amount, but alleged to be in the millions of dollars, and the divestiture of certain corrugated box manufacturing plants.

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.

Commitments

As part of its Video operations the Company routinely enters into commitments relating to transmission contracts and for rights to feature films and sports events which extend for various periods. In addition, the Company has long-term paper and printing contracts which were entered into in the normal course of its publishing operations.

Business Segment Information

The Company's principal lines of business are: Publishing, consisting of the publication of magazines, and of books; Forest Products, encompassing the production of container and containerboard, pulp and paperboard, and building products; and Video, comprised of cable-television, pay-television programming, and television broadcasting.

Refer to "Lines of Business" on page 40 for information relating to revenues, operating profits, identifiable assets, and foreign activities of the Company's principal lines of business. Included in Container and Containerboard's pre-tax income is $24.6 million, $21.2 million, $14.6 million, and $1.1 million of Georgia Kraft income for 1981, 1980, 1979, and 1978, respectively. In addition, the identifiable assets of Container and Containerboard include the Company's investment in Georgia Kraft.

All business segment information for years 1980 and prior has been restated to reflect continuing operations.

	1981		1980		1979	
	Depreciation, Depletion, and Amortization	**Capital Expenditures**	Depreciation, Depletion, and Amortization	Capital Expenditures	Depreciation, Depletion, and Amortization	Capital Expenditures
			(in millions)			
Publishing:						
Magazines	**$ 2.6**	**$ 4.4**	$ 2.9	$ 4.2	$ 2.1	$ 5.9
Books	**3.0**	**4.5**	3.1	5.0	1.8	5.2
Total Publishing	**5.6**	**8.9**	6.0	9.2	3.9	11.1
Forest Products:						
Container and containerboard	**17.1**	**33.2**	15.4	25.8	12.3	23.9
Pulp and paperboard	**23.8**	**39.7**	19.3	61.8	15.5	59.7
Building products	**12.0**	**18.1**	12.3	13.9	9.8	28.3
Total Forest Products	**52.9**	**91.0**	47.0	101.5	37.6	111.9
Video	**38.3**	**282.2**	25.1	146.2	17.7	69.7
Other Activities	**2.2**	**2.9**	2.2	2.7	2.4	5.3
Corporate	**1.6**	**19.1**	.5	1.7	.2	6.5
Total	**$100.6**	**$404.1**	$ 80.8	$261.3	$ 61.8	$204.5

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RICHARD B. McKEOUGH
Chief Financial Officer
(1973)

FRANK PACE JR.
Pres. and Chief Exec. Officer,
International Executive
Service Corps. (1960)

DONALD S. PERKINS
Chairman of the Executive
Committee, Jewel
Companies, Inc. (1979)

JAMES R. SHEPLEY
Chairman of the Executive
Committee
(1969)

Supplemental Information on the Effects of Changing Prices (Unaudited)

Statement of Income Adjusted for Changing Prices

Year ended December 31, 1981

	(in millions)	
Income from continuing operations as reported in the statement of income		$ 185
Adjustments to restate costs for the effect of general inflation:		
Production and manufacturing costs	$ (17)	
Depreciation, amortization, and depletion	(38)	(55)
Income from continuing operations adjusted for general inflation		130
Adjustments to reflect the difference between general inflation and changes in specific prices (current costs):		
Production and manufacturing costs	$ 12	
Depreciation, amortization, and depletion	(13)	(1)
Income from continuing operations adjusted for changes in specific prices		$ 129
Increase in specific prices (current cost) of inventories, property and equipment held during the year		$ 196
Effect of increase in general price level		189
Excess of increase in specific prices (current cost) over increase in general price level		$ 7

Notes to Supplemental Information on the Effects of Changing Prices (Unaudited)

Basis of Supplemental Data. This supplementary financial information discloses certain effects of inflation on inventories and property and equipment.

The effects of inflation have been measured in two ways. The first was determined by using the Consumer Price Index (CPI) for all Urban Consumers prepared by the Bureau of Labor Statistics of the U.S. Department of Labor. The second approach (Current Cost) measures inflation by specific price changes of certain assets.

Income from Continuing Operations. The Company's primary financial statements are prepared on the historical basis of accounting.

Adjustments to restate costs for the effects of general inflation represent the historical amounts of depreciation, amortization, and depletion, and that portion of production and manufacturing costs determined under the FIFO method of inventory, adjusted to reflect the change in the level of the CPI that has occurred since the date the related properties and inventories were acquired. Production and manufacturing costs, as determined under the LIFO method of inventory, already approximate average constant dollars and remain unchanged from those amounts in the primary

Five-Year Comparison of Selected Supplemental Financial Data Adjusted for Effects of Changing Prices (stated in average 1981 dollars) (unaudited)

	1981	1980	1979	1978	1977
	(in millions except for per share amounts)				
HISTORICAL COST INFORMATION ADJUSTED FOR GENERAL INFLATION					
Revenues from Continuing Operations	**$3,296**	$3,090	$3,028	$2,281	$1,858
Income from Continuing Operations	**130**	127	140		
Income from Continuing Operations Per Common Share**	**$2.12**	$2.26	$2.49		
Net Assets at Year-End*	**1,900**	1,700	1,700		
CURRENT COST INFORMATION					
Income from Continuing Operations	**129**	136	145		
Income from Continuing Operations Per Common Share**	**$2.11**	$2.41	$2.59		
Effects of Increase in Specific Prices on Inventories, and Property and Equipment Over (Under) Increase in General Price Level	**7**	(127)	(166)		
Net Assets at Year-End*	**2,200**	2,000	1,800		
OTHER INFORMATION					
Purchasing Power Gain From Holding Net Monetary Liabilities During the Year	**56**	70	66		
Cash Dividends Declared Per Common Share**	**$.95**	$.97	$1.02	$1.01	$.94
Market Price Per Common Share at Year-End**	**$37.01**	$33.01	$27.92	$28.71	$28.91
Average Consumer Price Index	**272.4**	246.8	217.4	195.4	181.5

*Net assets represent the historical cost amounts reported in the primary financial statements adjusted for the effects of general inflation and changes in specific prices, respectively, on inventories and property and equipment.
**Adjusted for 1981 two-for-one common stock split.

At December 31, 1981 the current cost of inventories was $317,014,000 and property and equipment, net of accumulated depreciation was $2,096,919,000.

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ARTHUR TEMPLE
Vice Chairman of the Board
and Chmn., Temple-Eastex, Inc.
(1973)

THOMAS J. WATSON JR.
Chairman Emeritus
International Business
Machines Corp. (1958)

financial statements.

Adjustments to restate costs for the effects of changes in specific prices represent the historical amounts of production and manufacturing costs, and depreciation, amortization, and depletion adjusted to reflect current cost at the date of sale and the average current cost depreciation of property and equipment restated to reflect current cost, respectively. Current cost was computed using appropriate external cost indices, appraisals and direct pricing methods. The current cost of timber and timberland and related depletion was based on estimated reforestation costs and forest management expenditures required to bring a newly harvested area to the existing maturity of present timberland holdings. The depreciation, amortization, depletion, and inventory accounting methods used to develop this supplementary financial information are the same as the methods used by the Company in its primary financial statements.

Income Taxes. No adjustments to, or allocations of, the amount of income tax expense in the primary financial statements were made in the computation of the supplemental information. Present tax laws do not allow for higher cost adjustments for the effects of inflation.

Purchasing Power Gain from Holding Net Monetary Liabilities During the Year. When prices are increasing, the holding of monetary assets (e.g., cash and receivables) results in a loss of general purchasing power. Similarly, liabilities are associated with a gain of general purchasing power. The amount has been calculated based on the Company's average net monetary liabilities for the year multiplied by the change in the CPI for the year. Such amounts do not represent funds available for distribution to shareholders.

Increases in Specific Prices of Inventories, Plant and Equipment Held During the Year. Under current cost accounting, increases in specific prices of inventories, plant and equipment held during the year are not included in income from continuing operations but are presented separately. The current cost increase is adjusted by the effect of general inflation measured by applying the annual rate of change in the CPI to the average current cost balances of inventories and plant and equipment.

Effects of Inflation. The economy has experienced relatively high rates of inflation for a number of years, and current indications are that this trend will continue. In order to offset the resulting rise in the costs of operations the Company has attempted to adjust selling prices to maintain profit margins over the years and currently expects to continue this approach to cope with future cost changes.

Management's Responsibilities for Financial Reporting

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

The Company maintains a system of internal accounting controls designed to provide management with reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. The concept of reasonable assurance is based on the recognition that the cost of a system of internal control should not exceed the benefits derived and that the evaluation of those factors requires estimates and judgments by management. Further, because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Nevertheless, management believes that a high level of internal control is maintained by the Company through the selection and training of qualified personnel, the establishment and communication of accounting and business policies, and its internal audit program.

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

J. Richard Munro
President and Chief Executive Officer

Richard B. McKeough
Chairman of the Finance Committee
and Chief Financial Officer

Report of Ernst & Whinney, 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, 1981 and 1980, and the related consolidated statements of income, shareholders' equity and changes in financial position for each of the three years in the period ended December 31, 1981. 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, 1981 and 1980, and the consolidated results of their operations and changes in their financial position for each of the three years in the period ended December 31, 1981, in conformity with generally accepted accounting principles applied on a consistent basis.

New York, New York
February 18, 1982

Ernst & Whinney

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Assistant Comptroller

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Assistant Secretary

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Assistant Secretary

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Ralph Graves
Editorial Director

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Group Vice President

Lawrence M. Crutcher
Vice President–Magazines

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Ray Cave
Managing Editor, Time

Edward Patrick Lenahan
Publisher, Fortune

William S. Rukeyser
Managing Editor, Fortune

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Publisher, Sports Illustrated

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Managing Editor, Sports Illustrated

John U. Crandell
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Marshall Loeb
Managing Editor, Money

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Managing Editor, People

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Eileen Mulcahy
Administrator

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Carl G. Jaeger
President, Time-Life Books, Inc.

Jerry Korn
Managing Editor, Time-Life Books, Inc.

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Temple-Eastex Incorporated

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Inland Container Corporation

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Executive Vice President

W.E. Babin
Group Vice President, Containerboard Division

E.B. Ciotti
Senior Vice President and President, Anderson Box Company

W.D. Gilreath
Senior Vice President, Operations Support

W.A. Long
Group Vice President, Container Division

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Vice President, Treasurer

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President, Home Box Office, Inc.

Monroe M. Rifkin
Chairman and Chief Executive Officer, American Television and Communications Corp.

Trygve Myhren
President, American Television and Communications Corp.

Marvin R. Chauvin
General Manager, WOTV

Executives of Other Activities

Charles B. Bear
Group Vice President

P. Peter Sheppe
Vice President and Deputy

William M. Guttman
Associate General Counsel and Assistant Secretary

Peter S. Hopkins
Vice President, Real Estate

Carolyn K. McCandless
Assistant Secretary

Samuel J. Moss
Director of Information Systems Group

Joseph Malone
Director of Subscription Services

E. Gabriel Perle
Corporate Vice President–Law

David Simonson
President and Publisher, Pioneer Press Inc.

Robert M. Steed
Director of Personnel

John A. Watters
Chairman, Selling Areas–Marketing Inc.

Carlyle C. Daniel
President, Selling Areas–Marketing, Inc.

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A Continuing Commitment

Last August when the Reagan administration proposed an easing of affirmative action regulations the stated objective was the laudable one of reducing burdensome paper work for corporations. However, the widespread impression was created that the Administration was backing away from affirmative action. In either case, Time Inc. President J. Richard Munro, in a speech to business leaders in November, made this Company's position clear. Time Inc. is not abandoning its own affirmative action goals. "Just because federal enforcement has slowed down," Munro said, "doesn't let us off the hook." If anything, the business community's efforts must be strengthened. Time Inc.'s will be.

Last year showed steady progress. The Company's continuing operations increased the proportion of minority group members in their employ in the U.S. from 20 percent in 1980 to 22 percent in 1981, and the proportion of women from 35 percent to 37 percent. More important, the number in management positions increased from 8 percent to 9 percent in the case of minorities and from 29 percent to 33 percent in the case of women. Every division of the Company, moreover, has specific timetables and goals for further increasing the proportion of women and minority employees at Time Inc. Particular emphasis is being placed on higher level jobs and on the employment of qualified disabled individuals.

For, as "Equal Time," the Company's equal opportunity newsletter, states, "EEO is, at bottom, good business and morally right—no matter what administration or political philosophy happens to hold power."

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ANNUAL MEETING
Thursday, April 15, 1982, 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) 586-1212

TRANSFER AGENT & REGISTRAR
Morgan Guaranty Trust Company of New York
30 West Broadway, New York, N.Y. 10015

CO-TRANSFER AGENT & CO-REGISTRAR
(common stock only)
RepublicBank Dallas, N.A.
P.O. Box 2964, Dallas, Texas 75221

COMMON STOCK PRICES AND DIVIDEND COMPARISON* 1981 and 1980
(New York Stock Exchange-Symbol: TL)
(London Stock Exchange-Symbol: TIMEINC)

PRICE RANGE		High	Low
1981	First Quarter	33 13/16	26 5/8
	Second Quarter	41 1/4	32 9/16
	Third Quarter	39 15/16	32 1/8
	Fourth Quarter	41 3/8	33 11/16
	YEAR	**41 3/8**	**26 5/8**
1980	First Quarter	26 5/8	19
	Second Quarter	24 3/8	19 1/4
	Third Quarter	31	22 7/16
	Fourth Quarter	31 9/16	26 15/16
	YEAR	**31 9/16**	**19**
DIVIDENDS		1981	1980
	First Quarter	$.225	$.2075
	Second Quarter	.225	.225
	Third Quarter	.25	.225
	Fourth Quarter	.25	.225
	YEAR	**$.95**	**$.8825**

*Adjusted for 1981 two-for-one common stock split.
The payment of dividends is subject to the restrictions described in Notes to Financial Statements–"Long-Term Debt."

Questions and communications regarding lost stock certificates, changes of address, dividend checks, consolidations of accounts, and transfer of certificates should be sent to: Morgan Guaranty Trust Company of New York, 30 West Broadway, New York, N.Y. 10015. Information about the Time Inc. Dividend Reinvestment and Stock Purchase Plan can be obtained by calling Morgan Guaranty Trust Company of New York at (212) 587-6525 or by writing to Time Inc., Office of the Secretary, Time & Life Building, Rockefeller Center, New York, N.Y. 10020.

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

Design: George Nicholson Design Illustration: Burt Silverman Major Photography: John Marmaras/Woodfin Camp