UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES

EXCHANGE ACT OF 1934

for the quarterly period ended September 30, 2017 or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES

EXCHANGE ACT OF 1934

for the transition period from ________________ to ________________

Commission file number 001-15062

TIME WARNER INC.

(Exact name of Registrant as specified in its charter)

Delaware	**13-4099534**
(State or other jurisdiction of	*(I.R.S. Employer*

incorporation or organization) *Identification No.)*

One Time Warner Center

New York, NY 10019-8016

(Address of Principal Executive Offices) (Zip Code)

(212) 484-8000

(Registrant s Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company and emerging growth company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer | Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) | Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Description of Class	Shares Outstanding as of October 20, 2017
Common Stock $.01 par value	778,592,980

Table of Contents

TIME WARNER INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

AND OTHER FINANCIAL INFORMATION

	Page
PART I. FINANCIAL INFORMATION	
Management s Discussion and Analysis of Results of Operations and Financial Condition	1
Item 4. Controls and Procedures	21
Consolidated Balance Sheet at September 30, 2017 and December 31, 2016	22
Consolidated Statement of Operations for the Three and Nine Months Ended September 30, 2017 and 2016	23
Consolidated Statement of Comprehensive Income for the Three and Nine Months Ended September 30, 2017 and 2016	24
Consolidated Statement of Cash Flows for the Nine Months Ended September 30, 2017 and 2016	25
Consolidated Statement of Equity for the Nine Months Ended September 30, 2017 and 2016	26
Notes to Consolidated Financial Statements	27
Supplementary Information	46
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	55
Item 1A. Risk Factors	55
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	55
Item 6. Exhibits	55

Table of Contents

TIME WARNER INC.

MANAGEMENT S DISCUSSION AND ANALYSIS

OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

INTRODUCTION

Management s discussion and analysis of results of operations and financial condition (MD&A) is a supplement to the accompanying consolidated financial statements and provides additional information on Time Warner Inc. s (Time Warner or the Company) businesses, current developments, financial condition, cash flows and results of operations. MD&A is organized as follows:

Overview. This section provides a general description of Time Warner s business segments, as well as recent developments the Company believes are important in understanding the results of operations and financial condition or in understanding anticipated future trends.

Results of operations. This section provides an analysis of the Company s results of operations for the three and nine months ended September 30, 2017. This analysis is presented on both a consolidated and a business segment basis. In addition, a brief description of transactions and other items that affect the comparability of the results being analyzed is included.

Financial condition and liquidity. This section provides an analysis of the Company s financial condition as of September 30, 2017 and cash flows for the nine months ended September 30, 2017.

Caution concerning forward-looking statements. This section provides a description of the use of forward-looking information appearing in this report, including in MD&A and the consolidated financial statements.

OVERVIEW

Time Warner is a leading media and entertainment company whose major businesses encompass an array of the most respected and successful media brands. Among the Company s brands are TNT, TBS, Adult Swim, Cartoon Network, CNN, HBO, Cinemax, Warner Bros. and New Line Cinema. During the nine months ended September 30, 2017, the Company generated Revenues of $22.660 billion (up 6% from $21.427 billion in 2016), Operating Income of $6.013 billion (up 3% from $5.856 billion in 2016), Income from continuing operations of $3.856 billion (up 7% from $3.597 billion in 2016), Net Income attributable to Time Warner shareholders of $3.858 billion (up 6% from $3.633 billion in 2016) and Cash provided by operations of $3.947 billion (up 12% from $3.534 billion in 2016).

Time Warner Businesses

Time Warner classifies its operations into three reportable segments: Turner, Home Box Office and Warner Bros. For additional information regarding Time Warner s segments, refer to Note 13, Segment Information, to the accompanying consolidated financial statements.

As used in MD&A, the term affiliates refers to distributors that deliver packages of networks to their subscribers, including cable system operators, satellite service distributors and telephone companies (traditional affiliates) and virtual multichannel video programming distributors (virtual MVPDs); and the term OTT services refers to services that deliver video content to consumers over the internet and includes subscription video-on-demand (SVOD) services and advertising-supported VOD (AVOD) services such as social media platforms and user-generated content digital platforms, but does not include virtual MVPDs.

Turner. The Turner segment consists of businesses managed by Turner Broadcasting System, Inc. (Turner). During the nine months ended September 30, 2017, the Turner segment recorded Revenues of $8.958 billion (39% of the Company s total Revenues) and Operating Income of $3.463 billion.

Turner creates and programs branded news, entertainment, sports and kids multi-platform content for consumers around the world. The Turner networks and related businesses and brands include TNT, TBS, Adult Swim, truTV, Turner Classic Movies, Turner Sports, Bleacher Report, Cartoon Network, Boomerang, CNN, HLN and iStreamPlanet. The Turner networks generate revenues principally from licensing programming to affiliates that have contracted to receive and distribute this programming to subscribers, from the sale of advertising and from licensing its original programming and its brands and characters for consumer products and other business ventures. Turner also generates revenues from the sale of advertising and sponsorships through its digital

1

Table of Contents

TIME WARNER INC.

MANAGEMENT S DISCUSSION AND ANALYSIS

OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION (Continued)

properties. Turner s programming is available to subscribers of affiliates for viewing live and on demand on television and various internet-connected devices on services provided by affiliates and on Turner s digital properties. Turner is also pursuing direct-to-consumer distribution options for its programming and networks. For example, in November 2016, Turner launched its first domestic SVOD service, FilmStruck, aimed at arthouse film enthusiasts. In addition, in April 2017, Turner and Warner Bros. launched a new domestic SVOD service under the Boomerang brand that offers new original animated series and kids programming from Warner Bros. and Turner s animation libraries.

Home Box Office. The Home Box Office segment consists of businesses managed by Home Box Office, Inc. (Home Box Office). During the nine months ended September 30, 2017, the Home Box Office segment recorded Revenues of $4.649 billion (21% of the Company s total Revenues) and Operating Income of $1.666 billion.

Home Box Office operates the HBO and Cinemax multichannel premium pay television services, with the HBO service ranking as the most widely distributed multichannel premium pay television service. HBO and Cinemax programming is available in the U.S. to subscribers of affiliates for viewing live and on demand on television and on various internet-connected devices on services provided through affiliates and on Home Box Office s digital properties. In addition, Home Box Office offers HBO NOW, a domestic stand-alone OTT service available through digital distributors and some affiliates on a variety of internet-connected devices. Home Box Office also has entered into arrangements with a number of digital distributors to provide their subscribers access to HBO and Cinemax services and programming on a variety of digital platforms and devices. HBO- and Cinemax-branded premium pay, basic tier television and OTT services are distributed in over 60 countries in Latin America, Asia and Europe.

In the U.S., Home Box Office generates revenues principally from licensing programming to affiliates and digital distributors that have contracted to receive and distribute such programming to their customers who subscribe to the HBO or Cinemax services. Home Box Office s agreements with its domestic affiliates are typically long-term arrangements that provide for annual fee increases and marketing support. The relationship between subscriber totals and the amount of revenues earned under Home Box Office affiliate agreements depends on the specific terms of the applicable agreement, which may include basic and/or pay television subscriber thresholds, volume discounts and other performance-based discounts. Marketing and promotional activities intended to retain existing subscribers and acquire new subscribers may also impact revenue earned. Internationally, Home Box Office generates subscription revenues by licensing programming to international affiliates that have contracted to receive and distribute such programming to their customers. In some countries, Home Box Office also generates subscription revenues from OTT services that are distributed to consumers either directly or through third parties. Additional sources of revenues for Home Box Office are the licensing of its original programming, including *Game of Thrones*, *Big Little Lies* and *VEEP*, and the home entertainment sales of its original programming via physical and digital formats.

Warner Bros. The Warner Bros. segment consists of businesses managed by Warner Bros. Entertainment Inc. (Warner Bros.) that principally produce and distribute television shows, feature films and videogames. Warner Bros. television, film and videogame businesses benefit from a shared infrastructure, including shared production, distribution, marketing and administrative functions and resources. During the nine months ended September 30, 2017, the Warner Bros. segment recorded Revenues of $9.813 billion (40% of the Company s total Revenues) and

Operating Income of $1.249 billion.

Warner Bros. is a leader in television production and distribution. Warner Bros. generates television product revenues principally from the licensing of programs to broadcast and cable television networks and premium pay television and OTT services. For the 2017/2018 season, Warner Bros. is producing over 70 original series in the U.S., including (i) at least three series for each of the five broadcast networks (including *Arrow*, *The Bachelor*, *The Big Bang Theory*, *Blindspot*, *DC s Legends of Tomorrow*, *The Flash*, *Gotham*, *iZombie*, *Lethal Weapon*, *Little Big Shots*, *Lucifer*, *The Middle*, *Mom*, *Riverdale*, *Supergirl*, *Supernatural, The Voice* and *Young Sheldon*), (ii) series for basic cable networks (including *Animal Kingdom*, *Claws*, *People of Earth* and *Queen Sugar*), (iii) series for premium pay television services (including *Shameless* and *Westworld*), (iv) series for SVOD services (including *Castle Rock*, *Disjointed*, *Fuller House* and *Longmire*), (v) series for first-run syndication (including *The Ellen DeGeneres Show*, *Extra*, *The Real* and *TMZ*) and (vi) animated series for Cartoon Network, Boomerang, Adult Swim and third party networks (including *New Looney Tunes* and *Teen Titans Go!*). Warner Bros. also licenses the rights to many of its U.S. original television series in international territories. Outside the U.S., Warner Bros. has a global network of production companies in many countries, which allows Warner Bros. to develop programming specifically tailored for the audiences in these territories. These local production companies also focus on developing non-scripted programs and formats that can be adapted and sold internationally and in the U.S.

TIME WARNER INC.

MANAGEMENT S DISCUSSION AND ANALYSIS

OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION (Continued)

Warner Bros. is a leader in the feature film industry and produces feature films under its Warner Bros. and New Line Cinema banners. Warner Bros. generates theatrical product revenues principally through rental fees from theatrical exhibition of feature films, including the following recently released films: *Annabelle: Creation*, *Blade Runner 2049*, *Dunkirk*, *It*, *Kong: Skull Island*, *The LEGO Batman Movie, The LEGO Ninjago Movie* and *Wonder Woman*, and subsequently through licensing fees received from the distribution of films on premium pay television services, broadcast and cable television networks and OTT services.

Warner Bros. is a leader in the home entertainment and videogame industries. The segment generates television and theatrical product revenues from the distribution of television and theatrical product in various physical and digital formats (e.g., electronic sell-through (EST) and video-on-demand (VOD)). In addition, the segment generates revenues through the development and distribution of videogames.

The distribution and sale of home entertainment product in physical formats is a large contributor to the segment s revenues and profits. For the past several years, sales of home entertainment product in physical formats have declined as the home entertainment industry has been undergoing significant changes as home entertainment consumption patterns have shifted. Several factors have contributed to this decline, including consumers shifting to digital purchases and transactional VOD rentals of content; changing retailer initiatives and strategies (e.g., reduction of floor space devoted to home entertainment product in physical formats); retail store closures; increasing competition for consumer discretionary time and spending; and piracy. Consumers have also been increasingly shifting to OTT services that are based on a subscription model rather than a transactional model. During the first nine months of 2017, across the home entertainment industry, consumer spending on home entertainment product in physical formats continued to decline and consumer spending on electronic delivery continued to increase. The electronic delivery of film and television content is growing and becoming more important to the Warner Bros. segment, which has helped to offset some of the decline in sales of home entertainment product in physical formats.

Television Industry

The television industry continues to evolve, with changes in technology, rapid growth in new video services, and a corresponding increase in overall video content consumption and shift in consumer viewing patterns. Consumers are watching an increasing amount of programming on demand and across a wide variety of services and internet-connected devices. Over the past few years, the number of subscribers to multichannel video services provided by traditional affiliates in the U.S. has declined, and the Company expects further declines to continue in the future. To counteract this trend, some traditional affiliates are placing greater emphasis on selling smaller bundles of linear networks, resulting in higher subscriber declines for most individual networks than for traditional affiliates in total. In addition, some traditional affiliates as well as media and technology companies have launched, or have announced that they will launch, virtual MVPD services, many of which offer fewer networks at a lower cost than most of the bundles of linear networks offered by traditional affiliates.

At the same time, the penetration of internet-connected devices has grown, which has led to a growing number and variety of internet-delivered video services that do not require a traditional affiliate subscription or set-top box

hardware. These include SVOD services that feature general entertainment programming with broad appeal, such as Amazon Prime Video, Hulu and Netflix, as well as niche SVOD services that offer differentiated programming. Several of these SVOD services have continued to increase their number of subscribers and have been, and are expected to continue, making significant investments in acquired and original programming. Some television networks and premium pay television services, such as HBO, have also launched OTT services. AVOD services, such as YouTube and Facebook, also have continued to gain in popularity.

As a result of these changes, consumers have more options for obtaining video content, including lower-cost alternatives. The combination of new competitors, changes in viewing habits and declines in subscribers to traditional affiliates multichannel video services has negatively affected overall television ratings and, as a result, television advertising revenues for the industry and certain of the Company s networks. There also has been a corresponding shift of advertising dollars to non-traditional video outlets.

To address these changes, the Company s strategy over the past few years has focused on strengthening its position within the traditional TV ecosystem, enhancing the value of traditional multichannel video service subscriptions for consumers and affiliates and the value of television advertising for advertisers, and pursuing new opportunities outside the traditional TV ecosystem. As part of this strategy, the Company plans to continue increasing its investment in high-quality distinctive programming to enhance the value of its networks, as well as continue expanding the amount of its content that is available on demand to capitalize on the shift in consumption habits. In addition, Turner has introduced new advertising products that provide greater data analytic tools and targeting capabilities to advertisers in order to compete more effectively with non-traditional outlets. The Company is also pursuing

Table of Contents

TIME WARNER INC.

MANAGEMENT S DISCUSSION AND ANALYSIS

OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION (Continued)

a number of initiatives to capitalize on the new opportunities presented by these changes, including launching OTT services and investing in and obtaining distribution of its content through other companies OTT services, as well as investing in short-form content production and digital-first news and entertainment networks. In addition, the Company is focused on increasing the digital sales and rentals of its television and film content and is a leader in various initiatives designed to make digital ownership of content more compelling for consumers.

AT&T and Time Warner Merger Agreement

On October 22, 2016, Time Warner entered into an Agreement and Plan of Merger (the Merger Agreement) with AT&T Inc. (AT&T), West Merger Sub, Inc. and West Merger Sub II, LLC, pursuant to which Time Warner will combine with AT&T in a stock-and-cash transaction. The Merger Agreement was approved unanimously by the boards of directors of both companies. Time Warner shareholders adopted the Merger Agreement at a special meeting of shareholders held on February 15, 2017. Subject to the satisfaction of the remaining conditions in the Merger Agreement, upon consummation of the merger, Time Warner s shareholders will receive per share consideration consisting of $53.75 in cash and a specified number of shares of AT&T stock, as set forth in the Merger Agreement and determined by reference to the average of the volume weighted averages of the trading price of AT&T common stock on the New York Stock Exchange (NYSE) on each of the 15 consecutive NYSE trading days ending on and including the trading day that is three trading days prior to the closing of the merger (the Average Stock Price). The stock portion of the per share consideration will be subject to a collar such that if the Average Stock Price is between $37.411 and $41.349, Time Warner shareholders will receive shares of AT&T stock equal to $53.75 in value for each share of Time Warner common stock. If the Average Stock Price is below $37.411, Time Warner s shareholders will receive 1.437 AT&T shares for each share of Time Warner common stock. If the Average Stock Price is above $41.349, Time Warner shareholders will receive 1.300 AT&T shares for each share of Time Warner common stock. The merger is conditioned on the receipt of certain antitrust and other required regulatory consents. The merger is expected to close before year-end 2017. Should Time Warner terminate the Merger Agreement in specified circumstances, Time Warner may be required to pay AT&T a termination fee equal to $1.725 billion if Time Warner enters into or consummates an alternative transaction with a third party following such termination of the Merger Agreement.

The merger with AT&T is consistent with the Company s strategy of ensuring that its content is available to consumers on a wide range of distribution platforms. The Company expects the merger will accelerate the Company s efforts to spur innovation in the media industry and improve the consumer experience with pay television bundles by creating compelling consumer offerings and developing more targeted advertising offerings, and it will accelerate and reduce the risk in Time Warner s strategy to distribute content through other online and mobile services, including those offered directly to consumers.

RESULTS OF OPERATIONS

Recent Accounting Guidance

See Note 1, Description of Business and Basis of Presentation, to the accompanying consolidated financial statements for a discussion of recent accounting guidance.

Table of Contents

TIME WARNER INC.

MANAGEMENT S DISCUSSION AND ANALYSIS

OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION (Continued)

Transactions and Other Items Affecting Comparability

As more fully described herein and in the related notes to the accompanying consolidated financial statements, the comparability of Time Warner s results from continuing operations has been affected by transactions and certain other items in each period as follows (millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Asset impairments	$ (9)	$ (30)	$ (11)	$ (35)
Gain (loss) on operating assets, net	13	(12)	69	77
Costs related to the AT&T merger	(93)		(276)	
Other	(5)	(14)	(16)	(28)
Impact on Operating Income	(94)	(56)	(234)	14
Investment gains, net		57	255	93
Amounts related to the separation or disposition of former Time Warner segments	(4)	(8)	(10)	(17)
Items affecting comparability relating to equity method investments	1	1	1	(139)
Pretax impact	(97)	(6)	12	(49)
Income tax impact of above items	30	35	45	(18)
Impact of items affecting comparability on income from continuing operations	$ (67)	$ 29	$ 57	$ (67)

In addition to the items affecting comparability described above, the Company incurred Restructuring and severance costs of $3 million and $23 million for the three and nine months ended September 30, 2017, respectively, and $11 million and $64 million for the three and nine months ended September 30, 2016, respectively. For further information regarding the Restructuring and severance costs, see Consolidated Results and Business Segment Results.

Asset Impairments

During the three and nine months ended September 30, 2017, the Company recognized asset impairments, relating primarily to software, of $9 million and $11 million, respectively, which consisted of $4 million and $6 million,

respectively, at the Warner Bros. segment and $5 million for both periods at the Turner segment. During the three and nine months ended September 30, 2016, the Company recognized asset impairments of $30 million and $35 million, respectively, which consisted of $25 million at Turner for both periods relating to an international broadcast license, $5 million and $6 million, respectively, at Warner Bros. relating to certain internally developed software and, for the nine months ended September 30, 2016, $4 million at Corporate relating to miscellaneous assets.

Gain (Loss) on Operating Assets, Net

During the three and nine months ended September 30, 2017, the Company recognized a $13 million gain on operating assets primarily relating to a non-income tax receivable at the Turner segment. During the nine months ended September 30, 2017, the Company also recognized a $49 million gain on the sale of an Atlanta broadcast television station at the Turner segment as well as miscellaneous gains of $6 million at the Turner segment and $1 million at the Warner Bros. segment. For the three months ended September 30, 2016, the Company recognized $12 million of loss on operating assets, primarily relating to the pending disposition of a business at the Turner segment. For the nine months ended September 30, 2016, the Company recognized $77 million of net gain on operating assets, consisting of $92 million of gains at the Warner Bros. segment, principally relating to the gain on the sale of the net assets of Warner Bros. Flixster business to Fandango Media, LLC, and $15 million of losses at the Turner segment, principally relating to the pending disposition of a business.

TIME WARNER INC.

MANAGEMENT S DISCUSSION AND ANALYSIS

OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION (Continued)

Costs Related to the AT&T Merger

For the three and nine months ended September 30, 2017, the Company recognized $93 million and $276 million, respectively, of costs related to the AT&T merger, consisting of $32 million and $83 million, respectively, at the Turner segment, $29 million and $78 million, respectively, at the Warner Bros. segment, $19 million and $75 million, respectively, at Corporate and $13 million and $40 million, respectively, at the Home Box Office segment. For the three and nine months ended September 30, 2017, these costs reflected $6 million and $42 million, respectively, of external transaction costs and $87 million and $234 million, respectively, of costs from employee retention programs (as discussed below). For the three and nine months ended September 30, 2017, $90 million and $268 million, respectively, of these costs are included in Selling, general and administrative expenses and the remainder in Costs of revenues in the accompanying Consolidated Statement of Operations.

In connection with entering into the Merger Agreement, the Company has granted 5.7 million special retention restricted stock units (Special Retention RSUs) as of September 30, 2017 to certain employees of Time Warner and its divisions, including all executive officers of Time Warner. Half of the Special Retention RSUs will vest 25% per year on each of the first four anniversaries of February 15, 2017, and the remaining half will vest 25% per year on each of the first four anniversaries of February 15, 2018. Pursuant to the Special Retention RSU agreements, vesting as a result of retirement is not permitted unless the employee retires after the merger has closed. In addition, the awards do not accelerate automatically following the closing of the merger. Instead, the employee must remain employed following the closing, and the awards will vest only on the scheduled vesting date or upon termination of employment under certain circumstances, such as termination without cause, for good reason or due to retirement.

In addition, certain employees of Time Warner and its divisions, including executive officers of Time Warner other than the Chairman and CEO, have received or will receive a cash retention award. Half of the award will become payable upon the closing of the merger, and the remaining half will become payable six months thereafter, in both cases, subject to continued employment on the relevant payment date. Payment will also be made upon termination without cause or for good reason.

Other

For the three and nine months ended September 30, 2017, Other includes external costs related to mergers, acquisitions or dispositions (other than the AT&T merger) of $5 million and $16 million, respectively, consisting of $5 million and $15 million at the Warner Bros. segment primarily related to severance costs associated with the shutdown of a business in Latin America and, for the nine months ended September 30, 2017, $1 million at the Turner segment. For the three and nine months ended September 30, 2016, Other includes external costs related to mergers, acquisitions or dispositions of $4 million and $9 million, respectively, consisting of $3 million and $4 million, respectively, at the Turner segment and $1 million and $2 million, respectively, at the Warner Bros. segment and, for the nine months ended September 30, 2016, $3 million at Corporate. For the three and nine months ended September 30, 2016, Other also includes $10 million of pension settlement charges at Corporate, and for the nine months ended September 30, 2016, $9 million of expenses at the Home Box Office segment related to Home Box

Office s withdrawal from a multiemployer benefit plan. External costs related to mergers, acquisitions or dispositions and the accrued benefit plan withdrawal expenses are included in Selling, general and administrative expenses in the accompanying Consolidated Statement of Operations.

Table of Contents

TIME WARNER INC.

MANAGEMENT S DISCUSSION AND ANALYSIS

OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION (Continued)

Investment Gains, Net

Investment gains, net are included in Other income (loss), net in the accompanying Consolidated Statement of Operations. The detail of Investment gains, net is shown in the table below (millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Sale of interest in Omni Atlanta hotel joint venture	$	$	$ 99	$
Gain on CME (a)				95
Gain on joint venture in Netherlands (b)		41		41
Fair value adjustments (c)	5	18	150	(44)
Gain (loss) on other investments	(5)	(2)	6	1
Investment gains, net	$	$ 57	$ 255	$ 93

(a) Related to financing transactions with Central European Media Enterprises Ltd. (CME) that were completed in the second quarter of 2016.
(b) Related to a gain associated with an agreement to dissolve a Home Box Office joint venture in the Netherlands.
(c) Related to warrants to purchase common stock of CME held by the Company.

Amounts Related to the Separation or Disposition of Former Time Warner Segments

The Company recognized $4 million and $10 million for the three and nine months ended September 30, 2017, respectively, and $8 million and $17 million for the three and nine months ended September 30, 2016, respectively, of losses related to the disposition of former Time Warner segments, primarily reflecting pension and other retirement benefits related to employees and former employees of Time Inc. These amounts have been reflected in Other income (loss), net in the accompanying Consolidated Statement of Operations.

Items Affecting Comparability Relating to Equity Method Investments

For both the three and nine months ended September 30, 2017, the Company recognized $1 million of income primarily related to its share of net investment gains recorded by equity method investees. For the three and nine months ended September 30, 2016, the Company recognized $1 million and $11 million of income, respectively, primarily related to net investment gains recorded by equity method investees and, for the nine months ended

September 30, 2016, $150 million of losses related to the financing transactions with CME in 2016. These amounts have been reflected in Other income (loss), net in the accompanying Consolidated Statement of Operations.

Income Tax Impact

The income tax impact reflects the estimated tax provision or tax benefit associated with each item affecting comparability using the effective tax rate for the item. The estimated tax provision or tax benefit can vary based on certain factors, including the taxability or deductibility of the item and the applicable tax jurisdiction for the item. For the nine months ended September 30, 2017, the income tax impact includes a $69 million benefit primarily reflecting the reversal of a valuation allowance related to the use of capital loss carryforwards to offset the gains on the Turner segment s sales of its interest in the joint venture that owns the Omni Atlanta hotel and its Atlanta broadcast television station.

Consolidated Results

The following discussion provides an analysis of the Company s results of operations and should be read in conjunction with the accompanying Consolidated Statement of Operations.

Table of Contents

TIME WARNER INC.

MANAGEMENT S DISCUSSION AND ANALYSIS

OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION (Continued)

Revenues. The components of Revenues are as follows (millions):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	**2016**	**% Change**	**2017**	**2016**	**% Change**
Turner	$ 2,768	$ 2,610	6%	$ 8,958	$ 8,526	5%
Home Box Office	1,605	1,426	13%	4,649	4,399	6%
Warner Bros.	3,460	3,402	2%	9,813	9,169	7%
Intersegment eliminations	(238)	(271)	(12)%	(760)	(667)	14%
Total revenues	$ 7,595	$ 7,167	6%	$ 22,660	$ 21,427	6%

For the three and nine months ended September 30, 2017, Revenues at the Turner and Home Box Office segments increased primarily driven by higher Subscription revenues, and Revenues at the Warner Bros. segment increased primarily driven by higher Theatrical product and Videogames and other revenues, which, for the three months ended September 30, 2017, was partially offset by lower Television product revenues. Each of the revenue categories is discussed in greater detail by segment in Business Segment Results.

Costs of Revenues. Costs of revenues were $3.928 billion and $12.466 billion for the three and nine months ended September 30, 2017, respectively, and $3.873 billion and $11.718 billion for the three and nine months ended September 30, 2016, respectively. The increase in Costs of revenues for the three months ended September 30, 2017 primarily reflected higher programming expenses at the Turner and Home Box Office segments, partially offset by lower print and advertising costs at the Warner Bros. segment. The increase in Costs of revenues for the nine months ended September 30, 2017 primarily reflected higher film and television production costs at the Warner Bros. segment and higher programming expenses at the Turner segment. The segment variations are discussed in Business Segment Results.

Selling, General and Administrative Expenses. For the three and nine months ended September 30, 2017, Selling, general and administrative expenses increased 17% and 11%, respectively, to $1.378 billion and $4.080 billion, respectively, from $1.179 billion and $3.688 billion for the three and nine months ended September 30, 2016, respectively, primarily reflecting higher AT&T merger costs at all segments and higher marketing expense at the Turner and Home Box Office segments. For the three and nine months ended September 30, 2017, Selling, general and administrative expenses included $90 million and $268 million, respectively, of costs related to the AT&T merger. The segment variations are discussed in Business Segment Results.

Included in Costs of revenues and Selling, general and administrative expenses is depreciation expense of $124 million and $367 million for the three and nine months ended September 30, 2017, respectively, and $118 million and $359 million for the three and nine months ended September 30, 2016, respectively.

Amortization Expense. Amortization expense was $45 million and $136 million for the three and nine months ended September 30, 2017, respectively, and $48 million and $143 million for the three and nine months ended September 30, 2016, respectively.

Restructuring and Severance Costs. For the three and nine months ended September 30, 2017 and 2016, the Company incurred Restructuring and severance costs primarily related to employee terminations and other exit activities. Restructuring and severance costs are as follows (millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	**2016**	**2017**	**2016**
Turner	$ 1	$ 8	$ 8	$ 15
Home Box Office	1		6	41
Warner Bros.	(1)	1	8	6
Corporate	2	2	1	2
Total restructuring and severance costs	$ 3	$ 11	$ 23	$ 64

TIME WARNER INC.

MANAGEMENT S DISCUSSION AND ANALYSIS

OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION (Continued)

Operating Income. Operating Income increased to $2.245 billion for the three months ended September 30, 2017 from $2.014 billion for the three months ended September 30, 2016. Excluding the items noted under Transactions and Other Items Affecting Comparability totaling $94 million and $56 million of expense for the three months ended September 30, 2017 and 2016, respectively, Operating Income increased $269 million, primarily reflecting increases at the Warner Bros., Turner and Home Box Office segments. Operating Income increased to $6.013 billion for the nine months ended September 30, 2017 from $5.856 billion for the nine months ended September 30, 2016. Excluding the items noted under Transactions and Other Items Affecting Comparability totaling $234 million of expense and $14 million of income for the nine months ended September 30, 2017 and 2016, respectively, Operating Income increased $405 million, primarily reflecting increases at the Warner Bros. and Home Box Office segments, partially offset by a decrease at the Turner segment.

Interest Expense, Net. Interest expense, net detail is shown in the table below (millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	**2016**	**2017**	**2016**
Interest expense	$ (305)	$ (350)	$ (919)	$ (1,045)
Interest income	51	52	157	171
Interest expense, net	$ (254)	$ (298)	$ (762)	$ (874)

The decrease in interest expense for the three and nine months ended September 30, 2017 was primarily due to lower average interest rates and lower average debt balances. The decrease in interest income for the nine months ended September 30, 2017 was primarily driven by the financing transactions with CME that were completed in the second quarter of 2016.

Other Income (Loss), Net. Other income (loss), net detail is shown in the table below (millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	**2016**	**2017**	**2016**
Investment gains, net	$	$ 57	$ 255	$ 93
Amounts related to the separation or disposition of former Time Warner segments	(4)	(8)	(10)	(17)
Loss from equity method investees	(65)	(59)	(160)	(261)
Other	(1)	(17)	(8)	(13)

Other income (loss), net	$	(70)	$	(27)	$	77	$	(198)

Investment gains, net and amounts related to the separation or disposition of former Time Warner segments are discussed under Transactions and Other Items Affecting Comparability. The decrease in loss from equity method investees for the nine months ended September 30, 2017 was primarily due to the recognition during the nine months ended September 30, 2016 of the Company s share of losses from CME related to the 2016 CME financing transactions.

Income Tax Provision. Income tax provision increased to $550 million and $1.472 billion for the three and nine months ended September 30, 2017, respectively, from $217 million and $1.187 billion for the three and nine months ended September 30, 2016, respectively. The Company s effective tax rate was 29% and 28% for the three and nine months ended September 30, 2017, respectively, compared to 13% and 25% for the three and nine months ended September 30, 2016, respectively. The increases in the effective tax rate for the three and nine months ended September 30, 2017 were primarily due to a change in the Company s tax method of accounting for film and television cost amortization that was approved by the Internal Revenue Service during the third quarter of 2016, partially offset by the impact of the Company s adoption of the new share-based compensation accounting guidance relating to excess tax benefits recognized with respect to share-based awards and the expected utilization of certain tax attribute carryovers in 2017.

Income from Continuing Operations. Income from continuing operations was $1.371 billion and $1.472 billion for the three months ended September 30, 2017 and 2016, respectively. Excluding the items noted under Transactions and Other Items Affecting Comparability totaling $67 million of expense and $29 million of income for the three months ended September 30, 2017 and 2016, respectively, Income from continuing operations decreased $5 million, primarily due to higher income tax expense, partially offset

Table of Contents

TIME WARNER INC.

MANAGEMENT S DISCUSSION AND ANALYSIS

OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION (Continued)

by higher Operating Income. Basic and Diluted income from continuing operations per common share were $1.76 and $1.73, respectively, for the three months ended September 30, 2017 and were $1.89 and $1.87, respectively, for the nine months ended September 30, 2016.

Income from continuing operations was $3.856 billion and $3.597 billion for the nine months ended September 30, 2017 and 2016, respectively. Excluding the items noted under Transactions and Other Items Affecting Comparability totaling $57 million of income and $67 million of expense for the nine months ended September 30, 2017 and 2016, respectively, Income from continuing operations increased $135 million, primarily due to higher Operating Income, partially offset by higher income tax expense. Basic and Diluted income from continuing operations per common share were $4.95 and $4.88, respectively, for the nine months ended September 30, 2017 and were $4.58 and $4.53, respectively, for the nine months ended September 30, 2016.

Discontinued Operations, Net of Tax. For the three months ended September 30, 2016, Discontinued operations, net of tax was expense of $5 million related to pension settlement charges related to businesses the Company previously disposed of. For the nine months ended September 30, 2016, Discontinued operations, net of tax was income of $35 million, which also included the recognition of additional tax benefits associated with certain foreign tax attributes of Warner Music Group (WMG), which the company disposed of in 2004. Basic and Diluted loss from discontinued operations per common share were $0.00 and $0.01 for the three months ended September 30, 2016. Both Basic and Diluted income from discontinued operations per common share were $0.04 for the nine months ended September 30, 2016.

Net Income attributable to Time Warner shareholders. Net income attributable to Time Warner shareholders was $1.372 billion and $3.858 billion for the three and nine months ended September 30, 2017, respectively, and $1.467 billion and $3.633 billion for the three and nine months ended September 30, 2016, respectively. Basic and Diluted net income per common share were $1.76 and $1.73, respectively, for the three months ended September 30, 2017 and were $1.89 and $1.86, respectively, for the three months ended September 30, 2016. Basic and Diluted net income per common share were $4.95 and $4.88, respectively, for the nine months ended September 30, 2017 and were $4.62 and $4.57, respectively, for the nine months ended September 30, 2016.

Business Segment Results

Turner. Revenues and Operating Income of the Turner segment for the three and nine months ended September 30, 2017 and 2016 are as follows (millions):

Three Months Ended September 30,			Nine Months Ended September 30,		
2017	2016	% Change	2017	2016	% Ch

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ion	$ 1,666	$ 1,480	13%	$ 5,003	$ 4,455	12
ng	963	996	(3)%	3,441	3,576	(4)
nd	139	134	4%	514	495	4
enues	2,768	2,610	6%	8,958	8,526	5
(a)	(1,002)	(935)	7%	(3,930)	(3,505)	12
nd ative	(476)	(415)	15%	(1,456)	(1,279)	14
s) on	13	(13)	(200)%	68	(15)	NM
nts	(5)	(25)	(80)%	(5)	(25)	(80)
ring ance	(1)	(8)	(88)%	(8)	(15)	(47)
tion	(50)	(48)	4%	(151)	(143)	6
tion	(4)	(4)	%	(13)	(13)	
g	$ 1,243	$ 1,162	7%	$ 3,463	$ 3,531	(2)

(a) Costs of revenues and Selling, general and administrative expenses exclude depreciation.

TIME WARNER INC.

MANAGEMENT S DISCUSSION AND ANALYSIS

OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION (Continued)

For the three and nine months ended September 30, 2017, Subscription revenues increased primarily reflecting higher domestic subscription revenues of $167 million and $506 million, respectively, due to higher contractual rates, partially offset by a decrease in subscribers.

For the three months ended September 30, 2017, the decrease in Advertising revenues reflected lower domestic revenues of $36 million, primarily driven by lower audience delivery at Turner s entertainment networks, partially offset by increases at Turner s news businesses. For the nine months ended September 30, 2017, the decrease in Advertising revenues reflected lower domestic revenues of $157 million primarily due to the comparison to the revenues associated with the NCAA Division I Men s Basketball Championship Tournament (the NCAA Tournament) in the prior year period when Turner s networks aired the championship and two Final Four games, as well as lower audience delivery at Turner s entertainment networks, partially offset by increases at Turner s news businesses.

The components of Costs of revenues for the Turner segment are as follows (millions):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	% Change	2017	2016	% Change
Programming costs:						
Originals and sports	$ 555	$ 506	10%	$ 2,606	$ 2,277	14%
Acquired films and syndicated series	208	203	2%	628	593	6%
Total programming costs	763	709	8%	3,234	2,870	13%
Other direct operating costs	239	226	6%	696	635	10%
Costs of revenues (a)	$ 1,002	$ 935	7%	$ 3,930	$ 3,505	12%

(a) Costs of revenues exclude depreciation.
For the three months ended September 30, 2017, programming costs increased primarily due to higher costs for original series. For the nine months ended September 30, 2017, programming costs increased mainly due to higher costs for National Basketball Association programming, partially offset by lower costs for NCAA Tournament programming. The increase in other direct operating costs for the three and nine months ended September 30, 2017 primarily related to costs associated with digital content and technology initiatives.

For the three and nine months ended September 30, 2017, Selling, general and administrative expenses increased primarily due to $31 million and $80 million, respectively, of costs related to the AT&T merger as well as higher marketing expense of $44 million and $76 million, respectively.

Refer to Transactions and Other Items Affecting Comparability for a discussion of Gain (loss) on operating assets, costs related to the AT&T merger and external costs related to mergers, acquisitions and dispositions for the three and nine months ended September 30, 2017 and 2016, which affected the comparability of the Turner segment s results.

Operating Income for the three months ended September 30, 2017 increased due to higher Revenues, higher Gain on operating assets and lower Asset impairments, partially offset by higher Costs of revenues and Selling, general and administrative expenses. Operating Income for the nine months ended September 30, 2017 decreased due to higher Costs of revenues and Selling, general and administrative expenses, partially offset by higher Revenues, higher Gain on operating assets and lower Asset impairments.

Table of Contents

TIME WARNER INC.

MANAGEMENT S DISCUSSION AND ANALYSIS

OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION (Continued)

Home Box Office. Revenues and Operating Income of the Home Box Office segment for the three and nine months ended September 30, 2017 and 2016 are as follows (millions):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	% Change	2017	2016	% Change
Revenues:						
Subscription	$ 1,418	$ 1,262	12%	$ 4,077	$ 3,751	9%
Content and other	187	164	14%	572	648	(12)%
Total revenues	1,605	1,426	13%	4,649	4,399	6%
Costs of revenues (a)	(758)	(690)	10%	(2,204)	(2,181)	1%
Selling, general and administrative (a)	(268)	(185)	45%	(701)	(623)	13%
Restructuring and severance costs	(1)		NM	(6)	(41)	(85)%
Depreciation	(22)	(17)	29%	(61)	(55)	11%
Amortization	(4)	(4)	%	(11)	(11)	%
Operating Income	$ 552	$ 530	4%	$ 1,666	$ 1,488	12%

(a) Costs of revenues and Selling, general and administrative expenses exclude depreciation.

For the three and nine months ended September 30, 2017, Subscription revenues increased due to higher domestic subscription revenues of $128 million and $267 million, respectively, reflecting increased subscribers and higher contractual rates, as well as higher international subscription revenues of $28 million and $59 million, respectively, reflecting growth in Europe.

For the three months ended September 30, 2017, Content and other revenues increased primarily due to higher international licensing revenues of $12 million and higher home entertainment revenues of $9 million. For the nine months ended September 30, 2017, Content and other revenues decreased due to lower home entertainment revenues, primarily due to the timing of releases.

The components of Costs of revenues for the Home Box Office segment are as follows (millions):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	% Change	2017	2016	% Change
Programming costs:						
Originals and sports	$ 288	$ 236	22%	$ 800	$ 824	(3)%
Acquired films and syndicated series	265	281	(6)%	816	783	4%
Total programming costs	553	517	7%	1,616	1,607	1%
Other direct operating costs	205	173	18%	588	574	2%
Costs of revenues (a)	$ 758	$ 690	10%	$ 2,204	$ 2,181	1%

(a) Costs of revenues exclude depreciation.

The increase in originals and sports programming costs for the three months ended September 30, 2017 was primarily due to the timing of original programming. The decrease in originals and sports programming costs for the nine months ended September 30, 2017 was primarily due to lower original programming charges, partially offset by the timing of original programming. The decrease in acquired films and syndicated series programming costs for the three months ended September 30, 2017 was primarily related to lower acquired programming costs for HBO s domestic businesses, partially offset by higher acquired

Table of Contents

TIME WARNER INC.

MANAGEMENT S DISCUSSION AND ANALYSIS

OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION (Continued)

programming costs for HBO s international businesses. The increase in acquired films and syndicated series programming costs for the nine months ended September 30, 2017 was primarily related to higher acquired programming costs for both HBO s international and domestic businesses.

For the three and nine months ended September 30, 2017, Selling, general and administrative expenses increased primarily due to higher marketing expenses of $57 million and $51 million, respectively, and costs related to the AT&T merger of $11 million and $35 million, respectively. In addition, the nine months ended September 30, 2016 included $9 million of expenses related to Home Box Office s withdrawal from a multiemployer benefit plan.

Refer to Transactions and Other Items Affecting Comparability for a discussion of costs related to the AT&T merger for the three and nine months ended September 30, 2017, which affected the comparability of the Home Box Office segment s results.

The results for the nine months ended September 30, 2016 included $41 million of Restructuring and severance costs principally related to executive severance costs.

The increase in Operating Income for the three and nine months ended September 30, 2017 was primarily due to higher Revenues, partially offset by higher Costs of revenues and higher Selling, general and administrative expenses, and for the nine months ended September 30, 2017, lower Restructuring and severance costs.

Warner Bros. Revenues and Operating Income of the Warner Bros. segment for the three and nine months ended September 30, 2017 and 2016 are as follows (millions):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	% Change	2017	2016	% Change
Revenues:						
Theatrical product	$ 1,697	$ 1,605	6%	$ 4,425	$ 3,926	13%
Television product	1,308	1,430	(9)%	4,134	4,058	2%
Videogames and other	455	367	24%	1,254	1,185	6%
Total revenues	3,460	3,402	2%	9,813	9,169	7%
	(2,343)	(2,447)	(4)%	(6,863)	(6,519)	5%

Costs of revenues (a)						
Selling, general and administrative (a)	(494)	(436)	13%	(1,442)	(1,309)	10%
Gain on operating assets		1	NM	1	92	(99)%
Asset impairments	(4)	(5)	(20)%	(6)	(6)	%
Restructuring and severance costs	1	(1)	NM	(8)	(6)	33%
Depreciation	(45)	(46)	(2)%	(134)	(142)	(6)%
Amortization	(37)	(40)	(8)%	(112)	(119)	(6)%
Operating Income	$ 538	$ 428	26%	$ 1,249	$ 1,160	8%

(a) Costs of revenues and Selling, general and administrative expenses exclude depreciation.

Table of Contents

TIME WARNER INC.

MANAGEMENT S DISCUSSION AND ANALYSIS

OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION (Continued)

Revenues primarily relate to theatrical product (which is content made available for initial exhibition in theaters) and television product (which is content made available for initial airing on television or OTT services). The components of Revenues for the three and nine months ended September 30, 2017 and 2016 are as follows (millions):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	% Change	2017	2016	% Change
Theatrical product:						
Film rentals	$ 772	$ 794	(3)%	$ 1,759	$ 1,603	10%
Home video and electronic delivery	424	368	15%	1,135	910	25%
Television licensing	427	369	16%	1,315	1,207	9%
Consumer products and other	74	74	%	216	206	5%