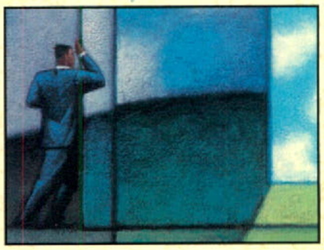
Tele-Communications, Inc. Annual Report




1991

CONTENTS

FINANCIALS

The fundamentals of Tele-Communications, Inc.'s core business have never been better. Cable continues to be one of the best performing industries in the nation while offering increasing levels of very popular programming.

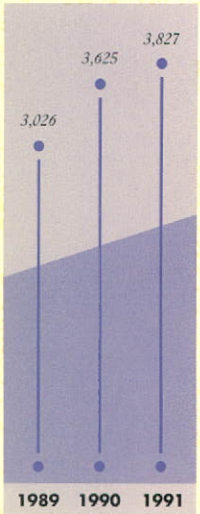
The Company's domestic cable operations, operating under TCI Cable Management, at year-end served 8,868,000 basic customers, up 250,000 over last year and 5,919,00 pay television or premium subscriptions, up 26,000. We currently pass over 15 million homes.

On March 28, 1991, Liberty Media Corporation's 33,000 consolidated and 1,629,000 non-consolidated subscribers were spun off TCI's rolls along with the majority of non-consolidated investments in both cable operations and programming services. On December 2, 1991, TCI acquired the remaining minority interest of United Artists Entertainment Company and their cable operations were merged into TCI's seven divisions adding 2,327,000 basic subscribers and 1,974,000 pay television subscribers.

Financially, 1991 was a very rewarding year. The Company continued its growth in revenue and cash flow, reduced losses, consolidated overhead and operations and moved into new capital markets to prepare TCI for future growth and emerging opportunities.

Despite recessionary pressures, TCI's cable revenues grew by 9 percent. Because of continued cost controls and increased efficiencies of scale, cable operating margins improved by 1.8 percent and cash flow from cable operations increased by 13.6 percent, giving the Company its best cash flow generation in its history.

The Company's net loss of over $102 million for 1991 represented an improvement of $185 million over last year due primarily to improved operating results by the Company and its affiliates, gains from dispositions of certain assets and a continued decline in interest rates during the year.



REVENUE
amounts in millions

Dear Shareholder,

This was the best year in your Company's history, despite a struggling economy and the uncertainty over cable legislation and re-regulation.

Our basic subscriber growth continued consistent with prior periods. When coupled with modest rate changes and tight cost control, there was a 13.6 percent increase in cable cash flow.

The rationalization of our assets moved forward, with Heritage Communications, Inc. and United Artists Entertainment Company becoming fully consolidated and brought under TCI's operating management. Liberty Media Corporation was successfully divested, and we reached agreement for the sale of our United Artists Theatre Circuit. In addition, TCI successfully entered the public debt market this year, issuing $350 million in seven- to 10-year debt. These transactions took advantage of TCI's position as investment grade debt issuers, and substantially extended the average maturity of our debt and reduced our dependence on the domestic banking market.

The most significant changes, however, were not reflected in the financial statements. The cable industry is on the verge of a major technological revolution, and TCI is in the vanguard of that movement. Operating with other cable operators through CableLabs, and directly with joint venture

Donne Fisher
Executive Officer
Finance

J.C. Sparkman
Executive Officer
Cable - Domestic

Fred A. Vierra
Executive Officer
International &
Programming

left to right

partners such as AT&T, US West, McCaw Cellular, FoxNet and Digital Equipment Corporation, your Company is deploying and testing a wide range of new technologies and services which will allow us to maintain our growth into the next century.

We are now the largest industry user of optical fiber in the world. We are upgrading our cable plant to improve capacity, quality and reliability of existing service, and to build an infrastructure to offer broadband interactive services in the future. Coupled with digital compression of video signals and other state-of-the-art technologies, we will provide services ranging from multichannel pay-per-view to very high capacity telecomputing.

These advancements do not stop at our national boundaries. Demand for American programming and communications technology is spreading rapidly around the world. We are participating in that growth in our programming investments such as Discovery, CNN and The Children's Channel, and also in the communication infrastructure in countries such as the United Kingdom, Norway, Sweden, Hungary, Ireland, Israel, Malta and New Zealand. Of particular interest is the U.K., where we are in a joint venture with US West to provide CATV and telephone services to almost four million homes and tens of thousands of businesses. Such ventures are a proving ground for the advanced services we will explore for domestic use in the future.

Reacting to the management challenges of this explosion of opportunities, we have reorganized our senior staff to better manage the tasks ahead.

Barry Marshall
Senior Vice President

Brendan R. Clouston
Senior Vice President and Chief Operating Officer

left to right

Joining me as executive officers are J.C. Sparkman, Donne Fisher and Fred Vierra to manage TCI's strategic direction. We will work as a team in planning and overseeing TCI's future with specific focus on domestic cable, finance and international cable, respectively. We have appointed Brendan Clouston as Chief Operating Officer. He was formerly Chief Financial Officer of United Artists Entertainment Company (UAE). Brendan has a well-earned reputation for getting things done and was largely responsible for the smooth and efficient merger of TCI and UAE. Taking the job of Chief Operating Officer of domestic cable is Barry Marshall, who has demonstrated his skill in nearly every management position at TCI during his 19 years of service.

With this new management in place, we plan to continue TCI's historic role as an aggressive growth company, exploiting these robust new techniques on a worldwide basis.

Bob Magness
Chairman of the Board

Dr. John C. Malone
President

Bob Magness
Chairman of the Board
Founder of TCI

Dr. John C. Malone
President
Chief Executive Officer

left to right

Introduction

In the process of becoming the nation's leading distributor of cable television services, TCI has been building a platform to become the low-cost provider of quality broadband services — such as telephony, alternate access, teleconferencing, local area networks and personal communications networks.

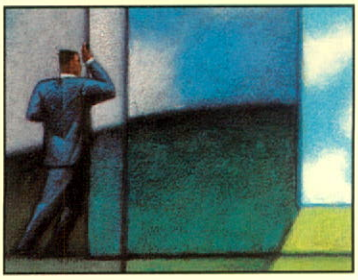
This platform for the future, as well as the Company's core cable business, has been built on four principles:

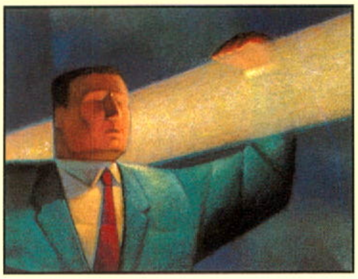
1

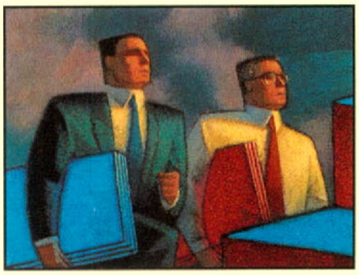
A MANAGEMENT STRUCTURE THAT CAN PROVIDE STRATEGIC VISION AND EXPERT IMPLEMENTATION FOR IMPROVING THE COMPANY'S CORE BUSINESS AND POSITIONING IT FOR FUTURE GROWTH.

2

LEADING EDGE TECHNOLOGY THAT ENHANCES THE QUALITY AND QUANTITY OF CABLE SERVICES WHILE LAYING THE BROADBAND ARCHITECTURE FOR NEW TELECOMMUNICATIONS CAPABILITIES.







3

QUALITY SERVICE THAT TREATS CUSTOMERS NOT ONLY AS CABLE USERS TODAY BUT AS POTENTIAL TELECOMMUNICATIONS CUSTOMERS TOMORROW.

4

STRATEGIC ALLIANCES WITH COMPANIES THAT ARE LEADERS IN THEIR RESPECTIVE TELECOMMUNICATIONS FIELDS, TO GIVE TCI ACCESS TO NEW REVENUE STREAMS AND EXPERTISE IN NEW TECHNOLOGIES, MARKETS AND PRODUCTS WHILE MINIMIZING RISK.

In 1991, the Company made significant accomplishments in each of these four areas.

To focus on the new challenges presented to TCI and to steer the Company through the complex collaborations that will be necessary to position it for future growth, TCI rationalized its business and created a new Office of the Chief Executive.

In 1991, TCI accomplished a goal it had set for itself the year before: to rationalize its business, simplify its balance sheet and focus on its core business of providing cable service to nearly 10 million customers around the nation.

Rationalizing and Consolidating TCI

United Artists Entertainment Merged

In 1991, the 54 percent-owned subsidiary, United Artists Entertainment Company (UAE), was merged into TCI.

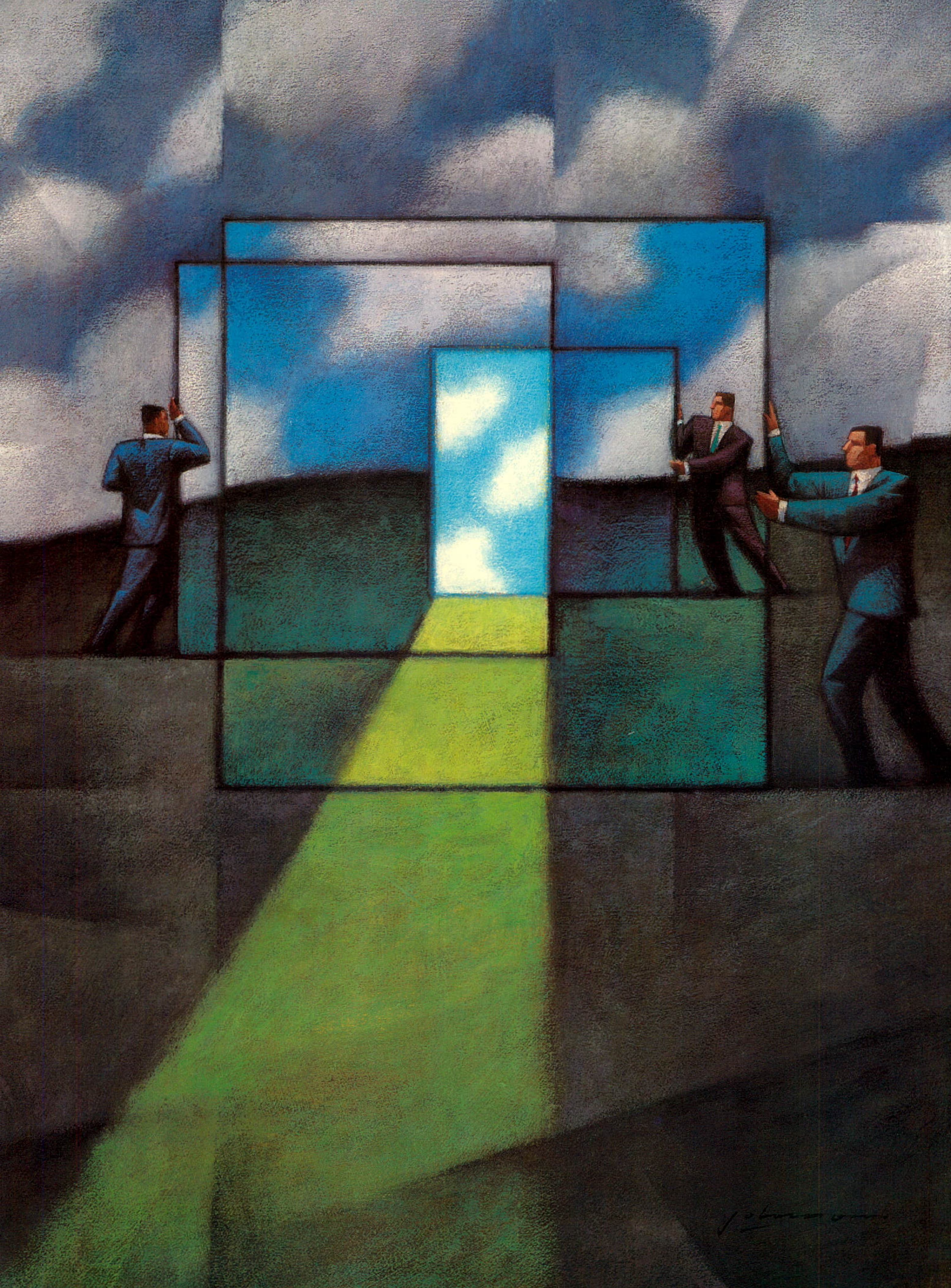
Under the merger agreement, 1.02 shares of TCI Class A common stock were exchanged for each share of UAE Class A common stock and UAE Class B common stock. Shares of UAE's preferred stock were converted into a comparable preferred stock of TCI. Holders of Tele-Communications, Inc. Rights (TCOMR) units issued in the 1989 merger of UAE and United Cable Television received $17.17 for each right delivered with a share of UAE Class A common stock or UAE Class B common stock.

UAE consisted of two operating companies, United Artists Cable and United Artists Theatres. UAE cable operations owned or managed cable television systems serving approximately 2.8 million subscribers. The merger of UAE's cable operations is expected to save the Company nearly $36 million in annual overhead in 1992 alone.

The theatre division, which did not fit with TCI's strategic vision, was put up for sale toward the end of 1991; an agreement to purchase was signed with UAE's former chief executive officer, several key employees and an investment group. United Artists Theatres, the nation's largest theatre chain, owns or manages approximately 2,406 motion picture screens in approximately 504 locations as of December 31, 1991.

Liberty Media Spun Off

Early in 1991, Liberty Media Corporation, then a wholly-owned subsidiary of the Company, was spun off as an independent concern. In an effort to streamline the Company, TCI contributed the majority of its non-consolidated investments in cable operations and programming investments to Liberty.



The TCI assets contributed to Liberty were cable television systems representing 33,000 consolidated and 1,629,000 non-consolidated subscribers, equity positions in cable television programming interests, and regional sports channels.

In exchange for the assets it contributed, TCI received preferred stock in Liberty. Liberty then was offered to TCI shareholders in exchange for a portion of their TCI stock holdings. The spin-off was concluded at the end of March 1991.

Senior Management Reorganized

With the consolidation completed, TCI had nearly doubled in size. To focus on the new challenges presented to the Company and to steer the Company through the complex collaborations that will be necessary to position it for future growth, a new Office of the Chief Executive was created. Details of this organization are in the Letter to Shareholders.

Debt Structure

To fuel the Company's internal growth and investments in new services and businesses, access to diverse sources of capital with prudent leverage and at reasonable rates remains a crucial goal.

In 1991, TCI continued its efforts to realign its debt structure to meet this goal. A key strategy for broadening funding sources in 1991 has been to access the public investment grade market. From April 1991 through the end of the year the Company came to market with three public bond issues totaling $350 million.

Historically, the Company has relied on the banking community to finance its assets and investments. These loans, however, typically have a five-to seven-year maturity which does not match the 20-year life of a typical cable television system. While bank financing remains and will continue to be an integral part of TCI's financing structure, our assets, operating commitments and investments into the future are better served by an expansion into long-term capital sources.

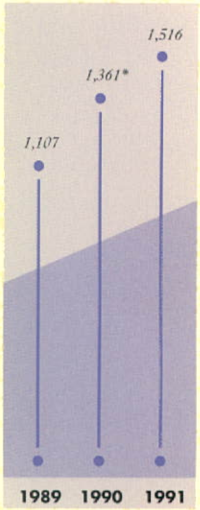
As a result, TCI placed $100 million of seven-year notes in April 1991, followed by $100 million of 10-year notes in July and $150 million of 12-year amortizing notes in October. And subsequent to 1991's activity, in January 1992 the Company issued $600 million of 20-year notes and in April 1992 it sold $200 million of 10-year notes and $150 million of 30-year notes.

In an effort to balance its debt and equity, in 1991 TCI also issued $342 million in convertible debt securities, placed four major bank financings for $1.2 billion and two private placements for $168 million while retiring $1.3 billion in bank commitments.

Consequently, by year-end, the Company had reduced its dependence on domestic bank financing to 23 percent of its capital structure, increased its international bank debt to 39 percent, maintained its private placements at 25 percent and increased its public financings to 13 percent.

The results of the realignment were significant. TCI's total debt is now spread over 64 diverse debt arrangements that at year-end carried an average cost of 8.1 percent with an average life that had been extended to more than seven years.

Looking forward, the Company will continue to reinvest cash flow back into our core business. The Company also will access diverse capital markets opportunistically and with prudence to pursue its longer-term growth strategies. By cultivating relationships with diverse funding sources, and by anticipating future business needs, the Company has positioned itself to best take advantage of the synergies between cable and the telecommunications industry.



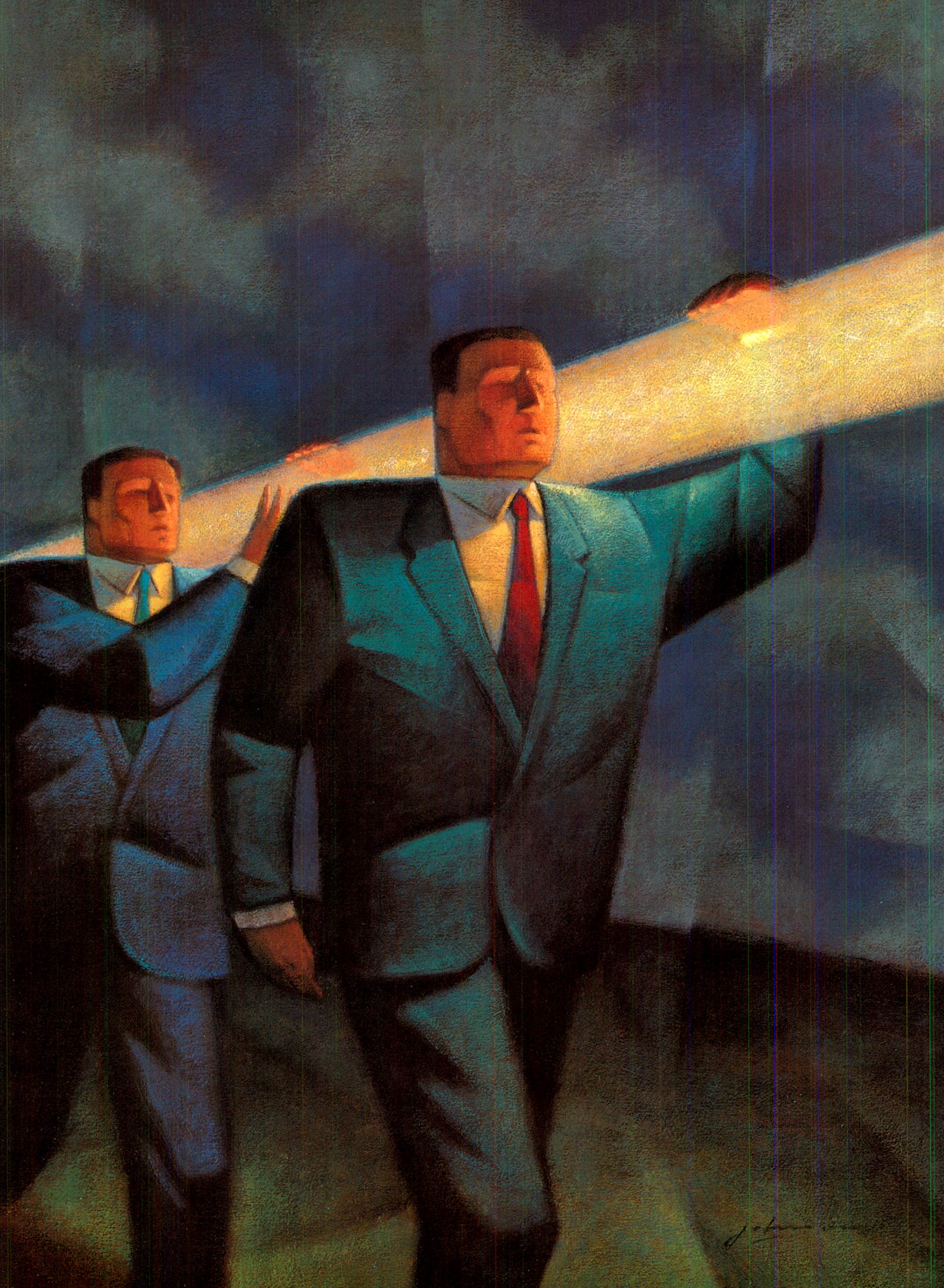
OPERATING CASH FLOW
amounts in millions

** Before theatre restructuring charge of $26 million*

Bernard W. Schotters
Senior Vice President, Finance and Treasurer

Gary K. Bracken, C.P.A.
Senior Vice President and Controller

left to right



The cable industry is on the verge of a major technological revolution and TCI is in the vanguard of that movement. That is why TCI was the largest industry user of fiber optic cable in the nation in 1991.

TCI and the cable television industry are at the beginning of another technological explosion, not unlike what the industry experienced in the mid-1970s when cable satellites were first launched, ushering in the era of multichannel programming.

With the new technology and equipment available today — fiber optics, digital compression, high definition television, personal communications networks, digital radio, pay-per-view, and direct broadcast satellites — the cable television business is quickly evolving into the highest quality and lowest cost distributor of broadband telecommunications services to the home and business.

The platform for this explosion is optical fiber. In 1991, TCI continued its aggressive deployment of fiber in its systems across the country.

Fiber Optics:
The Platform for New Technologies and Services

The main advantage of fiber's optical technology is that its signal can be carried greater distances without amplification compared with traditional coaxial cable. By eliminating the need for expensive amplifiers between the system headend and the customer's home, the cable system can:

- Improve the reliability and quality of the signal — a difference that is very perceptible to the customer.
- Provide for cost-effective increases to channel capacity. With fiber as part of a system's architecture, the coaxial cable that enters a customer's home can carry greater signal potential - over 100 channels.
- Reduce operating costs.

These benefits are immediate to the cable system and its customers. But fiber's capacity also enables the Company to position itself for future growth and businesses — in short, to become the lowest cost provider of broadband network facilities.

What does that mean? With a coaxial cable and fiber optic distribution system (coupled with digital compression), the Company now can plan to provide for its customers:

- 100 or more channels of video, which can be used for new a la carte programming; "multiplexing" which enables a customer to view a favorite show at different times of the day; video on demand; numerous simultaneous PPV and pay-per-event offerings and other entertainment ideas yet to be developed.

Fiber optic cable transmits signal through glass fiber using light waves. Fiber enables a cable system to improve the reliability and quality of its TV signal, reduce operating expenses while increasing the capacity for adding new channels as well as new broadband services such as data and voice transmission.

- Low cost data and information services.
- Home security, and possibly home energy management.
- The potential for personal communications networks (PCNs), which enable a customer to use low-cost mini-cellular phones anywhere in their own communities.

The Company also will be able to use its fiber systems for commercial services sold directly to business customers or wholesaled to other telecommunications providers, such as cellular and local phone companies. The commercial services the Company is exploring are:

- Alternate access for high volume data and voice users, giving them direct access to long distance carriers.
- Local area networks, using point-to-point fiber links to connect companies, schools, civic buildings, and so on.
- Teleconferencing and telecommuting.
- Other alternative communications and phone systems.

For these reasons, the Company made the deployment of fiber a priority in 1991.

TCI has already begun installing an increasing amount of fiber in its cable systems as part of scheduled rebuilds or upgrades.

The Company's first fiber was installed several years ago to improve signal quality in the Corvallis, Oregon system. Some 39 more projects were completed in 1991, bringing our total of installed fiber to 2,200 miles. Some 25 percent of our customers now benefit from fiber installations in their service areas. The Company will accelerate its fiber deployment in 1992 and beyond.

But that's not all TCI is doing. The Company is taking its fiber deployment one important step further. Rather than installing fiber to meet only the current and anticipated needs of its cable systems, the Company is installing fiber to meet the future needs of the emerging broadband telecommunications services industry.

What does that look like? When the fiber distribution system is designed, the Company also looks at potential broadband users in the local marketplace: office parks, hospitals, phone companies, and so on. It is incrementally very cost effective to add capacity to serve those potential users. Consequently, instead of laying one fiber strand which would more than handle cable

Larry E. Romrell
Senior Vice President

television needs, the Company is installing multiple strands in certain parts of the distribution network.

That is why in 1991, TCI was the single largest buyer of fiber in the nation.

Digital Compression:
Squeezing Several Channels Into One

Going hand in hand with the Company's fiber deployment is its experimentation with digital compression. Presently, cable systems use analog technology to transmit their product. But in the very near future, systems will switch to digital transmission which will enable a fiber-coaxial system to transmit between 300 and 400 channels. Digitally transmitted product will deliver better pictures and sound to the customer's television set, a switch not unlike going from record albums to compact discs.

Video signals transmitted by the digital data stream are virtually free of "noise" or snow; digitized images can be reproduced almost perfectly. The most dramatic aspect of digital TV, however, is the possibility that upwards of 12 digital video channels can be "compressed" into the spectrum usually occupied by one channel.

We look forward in 1992 to standardizing compression criteria through CableLabs and to the first tests and installations soon thereafter.

High Definition Television (HDTV):
Finding the Right Applications

High Definition Television (HDTV) is a technology that has long remained on the drawing board, caught in a battle among competing factions for an international standard. Moreover, consumers have given HDTV unclear signals as to its viability.

Now, with the flexibility provided by digital compression, HDTV – or some hybrid – may prove to be a technology ready for consumers. For the time being, the Company is experimenting with new HDTV technologies and looking for other applications.

In one experiment early in the year, TCI and the Faroudja SuperNTSC™ team provided an unprecedented long range "improved definition television" (IDTV) signal to physicians across the country via a new service called "Medical Videocare." Physicians in Washington, D.C. were linked with physicians in Sunnyvale, California using the SuperNTSC™ Advanced Television system over satellite and cable television transmission lines. The pictures showed a high level of detail and faithful reproduction, allowing doctors to consult with each other from a distance with the advantage of close-up visual detail.

Digital compression will enable cable systems to "squeeze" upwards of 12 channels into the spectrum usually occupied by one. When used with fiber and coaxial cable, this will enable the system to transmit between 300 and 400 channels of service. Digital signals will also improve the quality of the pictures and sound, like going from a record album to a compact disc.

A transactional relationship requires a whole new level of quality to keep customers satisfied with existing product and receptive to purchasing new product, be it enhanced cable services, or in the future, an array of broadband telecommunications services.

Service became "job one" for TCI and its employees in 1991. Over the years, cable has moved from being perceived by its customers as a necessity — something you had to have like electrical service or water delivery — to a discretionary service purchased on a transactional basis, almost daily.

And a transactional relationship requires a whole new level of quality to keep customers satisfied with existing product and receptive to purchasing new product, be it enhanced cable services, or in the future, an array of broadband telecommunications services.

With quality service, TCI will have the platform for growing its core business and its future products. Quality service means:

- Knowing what the customer wants and delivering it when the customer wants it without mistakes.
- Staffing, training and motivating employees for customer service and providing them with the tools and programs to do their jobs.
- Offering quality and quantity of programming options to our customers.
- Giving something back to the community by way of personal and professional involvement.

Customer Service:
"Putting the Customer 1st"

Efforts to improve customer service at TCI kicked into high gear with the creation of a 22-point "Customer 1st" service program that, among other things, involved detailed employee training and motivation. Simply put, our customers became our first priority.

The Company is also focusing more attention on how to communicate with its consumers. In 1991 TCI implemented an extensive customer communications and information campaign, involving an ongoing multimedia outreach to all TCI customers; an ongoing customer satisfaction tracking survey of all TCI systems; and the introduction of two employee motivational awards, one for customer service and one for community involvement.

Results from the latest customer satisfaction survey show that TCI's systems have steadily improved on every measure of customer service tracked since polling began in 1988.

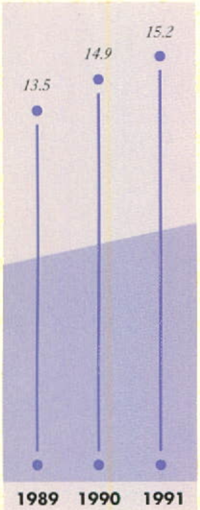
Programming:
Continuing a Commitment to Variety and Quality

The Company continues to provide its customers more and better programming choices. Some of the quality offerings introduced in 1991 include:

ENCORE ENCORE offers hit movies of the 60s, 70s and 80s, all uncut and commercial free, 24 hours a day. The service has a pricing structure that is the lowest among all premium services (such as HBO and Showtime) to encourage customers to main-

tain their present premium channel services while adding ENCORE.

The strategy worked. By year end, approximately 30 percent of TCI subscribers were receiving ENCORE – an unprecedented launch of a pay service in only six months. ENCORE's success heralds the beginning of a new way of thinking about how incremental services are sold to customers – on a low-cost, a la carte basis.



BASIC SUBSCRIBERS
amounts in millions

Digital Music Express In 1991, TCI became the first in the industry and in the nation to offer the new cable music service, Digital Music Express (DMX), to its subscribers in numerous systems. DMX is a 30-channel audio service which delivers CD-quality music to cable television customers 24 hours a day. The Company plans a major rollout of DMX in 1992.

Pay-Per-View, Pay-Per-Events:

The Summer Olympics Triplecast TCI rolled out a nationwide campaign to offer subscribers pay-per-event addressable converters. Pay-per-event programming, such as sports and concerts, will provide customers with an appealing new cable programming option. TCI's immediate goal is for every owned and affiliated cable television system to offer both pay-per-view (PPV) network movie services and pay-per-event (PPE) television.

Driving this effort is the 1992 Summer Olympics pay-per-event, one of the most exciting sports event packages in history, offering up to three channels of continuous Olympic coverage over 15 days.

TCI's short-term goal is to use the Olympics as a means of introducing pay-per-event to a wider audience followed by events and films of similar quality.

Making Cable "Hollywood-Friendly" The Company believes that if pay-per-view is to be successful, the film industry must view cable and PPV as an important and exciting revenue stream. With that in mind, TCI has set out to make its offerings "Hollywood-friendly."

The first step in this strategy was taken when TCI began carrying the Fox Broadcasting Co. Network (FoxNet) on its cable television systems where it otherwise was unavailable as a basic service.

The Company anticipates pursuing more direct studio involvement in the pay-per-view area in 1992.

VCTV Test The Company has joined with US West and AT&T in a viewer-controlled cable television (VCTV) market test in the Denver suburbs. The test is designed to discover how much extra value customers attribute to an "entertainment on demand" service compared to an expanded pay-per-view offering of pre-scheduled movies. If results are encouraging, development could follow quickly.

Stereo Audio In response to a growing number of customer requests, TCI is exploring the possibility of bringing stereo audio to all of the Company's systems. Studies show that stereo-equipped televisions add dramatically to customer enjoyment of programming. The plan would entail outfitting all premium channels with stereo capability.

A Deep Commitment to Community Service:
One part of the Company's commitment to the communities we serve is "Cable in the Classroom," an innovative education program launched by the industry three years ago.

Under the "Cable in the Classroom" program, the Company wires participating schools for cable, and then provides free of charge educational programming on topics such as math, history and science as well as data services and a program guide designed for teachers.

TCI is taking the program a step further. The Company has conducted several "laboratories" in schools to encourage teachers and students to use "Cable in the Classroom" services and materials in innovative ways.

TCI's goal is to bring our communities' school systems to the next level of technological sophistication by exploring ways in which advanced cable television (such as "Cable in the Classroom") and computer technology can make teaching more efficient, compelling and effective.

The Debate over Regulation: Federal and state public policy makers are now engaged in a multi-year effort to determine how government should relate to the new industry cable has pioneered – that of broadband telecommunication services to the home. There has been action in Congress and several agencies, accompanied by skirmishes between the cable industry, which favors a "free market" approach and others who favor more government regulation. Throughout the year, the Company continued to monitor and participate in the debate over regulation of cable television. As in past years, Congress is considering a number of proposals calling for regulation of subscriber fees, mandatory access to cable programming at regulated wholesale prices, requiring cable customers to pay for broadcast programming, and mandating that cable systems give up exclusivity in the programming it has fostered. Many of these proposals could adversely affect cable customers, vendors of cable programming and hardware and cable operators.

The Federal Communications Commission (FCC) adopted new standards for rate regulation in 1991 which subject a majority of the Company's cable systems to municipal regulation of prices for basic cable services, but within guidelines largely already followed by the Company over the last four years.

It is not possible to predict with certainty what will emerge from the legislative or regulatory arena. However, as cable continues to grow in popularity among consumers, it is likely that cable's competitors will continue to seek special relief in Washington. TCI's position will be to oppose onerous legislation and regulation while working to become more sophisticated in explaining the advantages of freedom in the television marketplace to our customers.

From a business standpoint, the Company remains flexible enough to respond to a broad range of legislative or regulatory actions. We are confident that our prospects for future growth will be significant.

Cable in the Classroom is an innovative educational program launched by the industry and TCI over three years ago. Under the program, TCI wires a school for cable and then provides, free of charge, a variety of educational programming and data services on topics such as math, history and science.

Robert J. Lewis
Senior Vice President
Corporate Development

Robert Thomson
Senior Vice President
Communications and
Policy Planning

left to right

By cultivating relationships with industry leaders and diverse funding sources, and by anticipating future business needs, TCI has positioned itself to best take advantage of the synergies between cable and the telecommunications industry.

The Company historically has used strategic alliances with industry leaders to develop and acquire expertise in new markets, products and technologies.

In 1991, the Company's strategic alliances served two goals: to grow the core business of cable television and to explore the future business of providing broadband telecommunications services.

GROWING THE CORE BUSINESS OF CABLE TV

Going International *Teaming With US West*

TCI is actively seeking sound cable franchise opportunities around the globe.

Its agreement to enter into a joint venture with US West in the United Kingdom will make it the largest cable operation in that country, with franchises totaling 2.9 million households. The proposed investment in the U.K. also represents the Company's first significant venture as an equity player in local telephone exchange service. The 50/50 joint venture is expected to spend upwards of $1 billion developing cable and telephone systems in the U.K. in the coming years.

The U.K. operations provide attractive strategic value to the Company: it's the only market where the Company can deliver telephone and video as one entity.

Another entrepreneurial presence in Europe is United Artists Entertainment Programming (UAEP). UAEP has won the right to turn its U.K. tape-delayed, government network into a live service on its Parliamentary Channel and is putting together or planning to distribute other cable networks.

VCTV *Teaming with AT&T and US West*

In 1991, TCI teamed with AT&T and US West to market test "viewer-controlled cable television" (VCTV).

The tests will offer two services – movies on demand and expanded pay-per-view – to 300 selected customers on a Denver, Colorado suburban cable system. The first service will allow customers to order from a list of 2,000 movies for $3.99 each. Users will be able to start the movie when they wish and even pause for a 10-minute break. The second service will initially offer 24 channels of pay-per-view hit movies that start every half hour for $2.99. Following an 18-month test period, the Company will evaluate the results for possible system-wide carriage.

Advertising:
Teaming With Tribune And Cable AdNet

TCI continues to position itself to bring in new revenue streams from ancillary businesses that will also build on the traditional basic cable television service. One such ancillary business, cable advertising sales, is relatively new but has had a strong and steady growth.

In 1988 the entire industry sold $1.5 billion in cable ad sales; by 1991 that figure had doubled.

Tribune Broadcasting Co.'s, Tribune Regional Programming, Inc., has agreed to provide a 24-hour news and information service to TCI's 300,000 cable television subscribers in the Chicago metro area. This basic cable service, "Chicagoland Television," will feature local news coverage, sports news, weather, traffic, lifestyle reports and politics for the area. TCI has the right to one minute an hour of ad time and up to three minutes an hour, 18 hours daily for the Company's promotional programming.

During 1991, the Company enhanced its ad sales efforts with the purchase of 100 percent of Cable AdNet Partners, which coordinates advertising placement on cable systems nationwide. TCI plans to run Cable AdNet independently from the Company's in-house advertising sales operations.

Direct to the Non-cabled Home:
Netlink

Netlink, USA, a subsidiary of the Company, became the nation's largest provider of cable programming to the TVRO industry (satellite dishes) in 1991. This is a form of direct broadcast satellites (DBS).

Netlink's 215,000 customers include both home users and retail establishments such as hotels, restaurants and condominium developments – those traditionally not serviced by hard-wired cable systems. In addition, Netlink also provides services to cable television companies to help them import distant television and superstation signals.

With Netlink, the Company is well positioned to reach non-cabled customers, thereby providing a valuable service to local communities while making the Company a more diversified provider of video services. In addition, the Company is positioned to tap the potential for DBS, satellite delivered PPV and satellite delivered HDTV – all of which are emerging entertainment businesses.

EXPLORING THE BROADBAND BUSINESS

Personal Communications Network (PCN): *Teaming With McCaw*

Late in the year, TCI began a market test in its Medford, Oregon cable television system for a personal communications network (PCN). The test, held in conjunction with McCaw Cellular Communications, Inc. will interconnect McCaw's cellular sites with TCI's fiber optic transmission facilities. The companies envision the PCN to be a less expensive cellular service with fewer features and limited mobility.

The goal of the PCN test is to determine market demand for and interest in this moderately priced, wireless telephone service. If there is a market, the cable industry can greatly accelerate its deployment in cooperation with the nation's cellular providers.

Alternate Access: *Teaming With Digital Direct And Teleport Communications Group*

Digital Direct, Inc. (DDI) was founded by the Company to build metropolitan area networks (MANs) in cities where TCI has significant cable operations. Using fiber optics, MANs provide high quality, cost effective and reliable voice, data and video links among telecommunications users in a metro area – users such as businesses, bank ATM networks, hospitals and government. DDI currently is in three cities – Chicago, Dallas and Seattle – with plans to expand to Pittsburgh, St. Louis and Denver.

When coupled with DDI's networks, TCI's cable systems can offer a broad array of alternative access and information age services to commercial clients not yet serviced by cable.

As a further commitment to these services, TCI has agreed to purchase upwards of 49.9 percent of the nation's largest alternative phone carrier, Teleport Communications Group, Inc. The Staten Island, N.Y. – based company competes with regional phone companies to provide alternate access and data communications services in markets including New York, Chicago and Los Angeles.

Together, Teleport and DDI provide the capacity to build the Company's broadband cable terrestrial facilities nationwide. The Company hopes to forge partnerships with numerous other cable companies to provide this service beginning in late 1992.

A personal communications network (PCN) is a wireless telephone service that links cellular and cable television technologies to provide customers with a low-cost (and lower-range) alternative to cellular telephone service.

SM

TCI

We're taking television into tomorrow.

MARKET FOR THE COMPANY'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Shares of the Company's Class A and Class B common stock are traded in the over-the-counter market on the National Association of Securities Dealers Automated Quotations ("NASDAQ") National Market System under the symbols TCOMA and TCOMB, respectively. The following table sets forth the range of high and low sales prices of shares of Class A and Class B common stock for the periods indicated as furnished by NASDAQ. The prices have been rounded up to the nearest eighth, represent prices between dealers, do not include retail markups, markdowns, or commissions and do not necessarily represent actual transactions.

	Class A		Class B	
1990	*High*	*Low*	*High*	*Low*
First Quarter	18½	12¾	19¼	14
Second Quarter	16½	11⅞	16½	12½
Third Quarter	15⅜	9¼	14¾	9¼
Fourth Quarter	14¼	8⅜	13⅝	9
1991				
First Quarter	16⅜	11⅝	16	11¾
Second Quarter	17½	13	17½	13
Third Quarter	16⅛	12¾	16	13
Fourth Quarter	17⅛	13	17½	13

As of February 1, 1992, there were 5,065 holders of record of the Company's Class A common stock and 821 holders of record of the Company's Class B common stock (which amounts do not include the number of shareholders whose shares are held of record by brokerage houses but include each brokerage house as one shareholder).

The Company has not paid cash dividends on its Class A or Class B common stock and has no present intention of so doing. Payment of cash dividends, if any, in the future will be determined by the Company's Board of Directors in light of the Company's earnings, financial condition and other relevant considerations. Certain loan agreements contain provisions that limit the amount of dividends, other than stock dividends, that the Company may pay (see note 8 to the consolidated financial statements). See also related discussion under the caption *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

SELECTED FINANCIAL DATA

2•2

The following tables present selected information relating to the financial condition and results of operations of the Company for the past five years:

Balance Sheet Data:	December 31,				
	1991	*1990*	*1989*	*1988*	*1987*
	amounts in millions				
Property and equipment, net	**$ 4,443**	4,526	4,179	3,141	2,445
Franchise costs, net	**$ 5,723**	5,131	4,649	3,144	2,375
Total assets	**$13,010**	12,310	11,432	8,574	6,296
Debt	**$ 9,910**	9,487	8,176	6,202	4,905
Stockholders' equity	**$ 1,439**	622	908	1,206	787
Shares outstanding (net of treasury shares):					
Class A common stock	**370**	310	305	304*	254*
Class B common stock	**49**	48	48	48*	48*

Summary of Operations Data:	Years ended December 31,				
	1991	*1990*	*1989*	*1988*	*1987*
	amounts in millions, except per share data				
Revenue	**$ 3,827**	3,625	3,026	2,282	1,709
Operating income	**$ 804**	654	569	491	358
Net earnings (loss)	**$ (102)**	(287)	(257)	56	6
Primary and fully diluted earnings (loss) per common share	**$ (.28)**	(.81)	(.73)	.15	.02
Primary and fully diluted weighted average common and common equivalent shares outstanding	**360**	355	353	385*	306*

*Restated to give effect to the September 29, 1989 distribution of one share of Class A common stock for each outstanding share of Class A common stock and one share of Class B common stock for each outstanding share of Class B common stock, held of record on September 8, 1989, by way of a stock split effected in the form of a dividend.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Summary of Operations

The following table sets forth, for the periods indicated, the percentage relationship that certain items bear to revenue and the percentage increase or decrease of the dollar amount of such items as compared to the prior period. This summary provides trend data relating to the Company's normal recurring operations. Other items of significance are discussed separately under the captions "Other Income and Expense", "Income Taxes" and "Net Loss" below.

	Relationship to Revenue by Industry Segment Years ended December 31,			*Period to Period Increase (Decrease) Years ended December 31,*	
Cable	**1991**	*1990*	*1989*	*1990–91*	*1989–90*
Revenue	**100.0%**	100.0%	100.0%	9.0 %	24.6 %
Operating, selling, general and administrative	**55.4**	57.2	57.4	5.5 %	24.2 %
Depreciation and amortization	**20.9**	21.5	20.8	6.2 %	28.5 %
Operating income	**23.7%**	21.3%	21.8%	21.0 %	21.7 %
Theatre					
Revenue	**100.0%**	100.0%	100.0%	(9.1)%	2.9 %
Operating, selling, general and administrative	**86.1**	85.1	84.9	(11.9)%	3.0 %
Restructuring charge	**—**	3.8	–	n/m	n/m
Depreciation and amortization	**6.8**	7.3	7.1	(16.0)%	6.4 %
Operating income	**7.1%**	3.8%	8.0%	69.2 %	(50.9)%

n/m = not meaningful

As shown above, cable television revenue increased 9.0% and 24.6% for 1990 to 1991 and 1989 to 1990, respectively. Approximately 3–5% of such increases resulted from growth in subscriber levels within the Company's cable television systems and an additional 5–7% was due to increases in prices charged for cable television service. The balance of the increases in cable television revenue was attributable to acquisitions.

On December 2, 1991, the Company acquired the remaining minority interest in United Artists Entertainment Company ("UAE"). However, since UAE was previously consolidated, the Company's revenue was not affected by this transaction.

Certain proposed changes to the legislative and regulatory environment in which the cable television industry operates could limit future increases in prices charged for cable television service. The effect of such limitations, if imposed, on the future growth of cable television revenue of the Company cannot be predicted at this time.

Increased programming costs and certain one-time charges have caused cable television operating costs and expenses to be higher than normal. It is anticipated that the Company's cost of programming will continue to increase in the future as program suppliers increase their rates (faster than the inflation rate) and additional sources of programming become available. Additionally, certain proposed changes in the legislative and regulatory environment in which the cable television industry operates could have the effect of increasing certain programming costs. The Company cannot determine whether and to what extent increases in the cost of programming will affect the prices charged by it for its cable television services or the manner in which these services are offered.

The decrease in theatre revenue for 1990 to 1991 reflects a 7% decline in attendance, net of a 4% increase in average ticket prices. The decline in attendance partially results from the theatre restructuring described below. The increase in theatre revenue for 1989 to 1990 reflects a 7–8% increase in average ticket prices and a 3–4% decline in attendance. The decline in attendance partially results from a 7% decrease in the number of screens in operation at December 31, 1990 as compared to the prior year.

Theatre operating expenses for 1991, as a percentage of revenue, were comparable to those for prior years (exclusive of the 1990 theatre restructuring charge).

During the fourth quarter of 1990, UAE recorded a $26 million charge in connection with its December of 1990 plan to restructure its theatre operations. This charge included the net estimated costs associated with the anticipated closure of 23 theatres (73 screens) located in seven states and the anticipated sale of 52 theatres (215 screens) located in thirteen states. This plan was implemented because such theatres generally were unprofitable or located in nonstrategic areas. Additionally, UAE disposed of approximately 70 screens at 22 locations in 1991. Many of the screens were single or twin screen locations which did not meet UAE's operating criteria or were located in nonstrategic areas outside major theatrical markets.

Other Income and Expense

Interest expense decreased during 1991 as a result of declining interest rates. During 1990 and 1989, interest expense increased due principally to additional borrowings by the Company in connection with acquisitions. The Company's weighted average interest rate on borrowings was 9.0%, 9.8% and 10.4% during 1991, 1990 and 1989, respectively. At December 31, 1991, after giving effect to various interest rate hedge and exchange agreements (see note 8 to the consolidated financial statements) aggregating $1,996 million, the Company had $5,421 million (or 55%) of fixed-rate debt with a weighted average interest rate of 9.9% and $4,489 million (or 45%) of variable-rate debt with interest rates approximating the prime rate (6.5% at December 31, 1991).

The Company sold certain investments and other assets for an aggregate net pre-tax gain of $36 million and $61 million in 1991 and 1989, respectively. In 1990, the Company recognized a $17 million loss in connection with the sale or other disposition of assets. Subsequent to December 31, 1991, TCI agreed to sell UAE's motion picture theatre business and certain theatre-related real estate assets. No gain or loss will be recognized in connection with this disposition.

During 1991, 1990 and 1989, the Company recorded losses of $7 million, $12 million and $26 million, respectively, resulting from early extinguishment of debt during such periods. Although these losses were incurred in each of the last three years, they resulted from transactions which are considered to be nonrecurring in nature; however, there may be additional early extinguishments of debt in the future.

During 1990 and 1989, the Company recorded expenses of $25 million and $75 million, respectively, for stock appreciation rights granted in 1987 to certain members of senior management and other key managers of Heritage Communications, Inc. ("Heritage") to induce them to remain with Heritage following consummation of its 1987 merger with TCI. During 1990, Heritage purchased all of the aforementioned stock appreciation rights for $165 million. Accordingly, there was no compensation relating to these rights in 1991.

Income Taxes

The Company recorded tax expense in 1991 and 1990 although there was an expected benefit based upon the statutory rate. This is principally the result of nondeductible depreciation and amortization relating to acquisitions and the nonrecognition of net operating losses of a subsidiary for financial statement purposes.

Income tax benefit in 1989 is lower than the expected benefit based upon the statutory rate. This results from nondeductible depreciation and amortization relating to acquisitions, nondeductible losses of corporate affiliates and gain on sales of assets for income tax purposes, net of the effect of investment tax credits recognized for financial statement purposes.

The Financial Accounting Standards Board has issued Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," which will supersede Statement 96, "Accounting for Income Taxes." The Company currently accounts for income taxes under Accounting Principle Board Opinion No. 11, having elected not to adopt Statement 96 prior to its required effective date. Statement 109 will change the Company's method of accounting for income taxes from the deferred method required under APB 11 to the asset and liability method. The Company presently does not know and cannot reasonably estimate the impact of Statement 109 on its financial statements. Statement 109 is effective for fiscal years beginning after December 15, 1992. The Company has not made a determination whether it will restate any prior years or adopt Statement 109 in 1993 on a prospective basis.

The Tax Reform Act of 1986 included transitional rules whereby investment tax credit could continue to be earned, under certain circumstances, through December 31, 1990. The Company recognized investment tax benefits under such transitional rules amounting to $12 million and $15 million for 1990 and 1989, respectively.

Net Loss

The Company's net loss of $102 million for 1991 represented an improvement of $185 million as compared to the Company's net loss for 1990 due primarily to improved operating results by the Company and its affiliates, and an increase in gain on dispositions of assets. Also, the general decline in interest rates during the year had a positive impact on the Company's net results.

The Company owned a majority interest in UAE through December 2, 1991, the date on which TCI acquired the remaining minority interest in UAE. During 1990, the minority interest in UAE's net loss attributable to common shareholders amounted to $78 million, which amount represented substantially all of the remaining minority interest in the equity of UAE other than that attributable to preferred stock and common stock issued with rights. Accordingly, the minority interest in UAE's losses during 1991 was not material.

See note 7 to the accompanying consolidated financial statements for pro forma information regarding the effects of the acquisition of the remaining minority interest in UAE.

The Company's net loss of $287 million for 1990 represented a decline of $30 million as compared to the Company's net loss for 1989. The Company incurred additional interest expense during 1990 as compared to 1989, had an incremental $78 million negative impact from 1989 to 1990 resulting from dispositions of assets and had an incremental $68 million increase from 1989 to 1990 in income tax expense primarily attributable to nonrecognition of net operating losses of a subsidiary for financial statement purposes, but experienced improved operating results (both on a consolidated basis and by its affiliates accounted for under the equity method) and reduced compensation relating to stock appreciation rights.

Inflation has not had a significant impact on the Company's results of operations during the three-year period ended December 31, 1991.

Liquidity and Capital Resources

The Company generally finances acquisitions and capital expenditures through net cash provided by operating and financing activities. Although amounts expended for acquisitions and capital expenditures exceed net cash provided by operating activities, the borrowing capacity resulting from such acquisitions, construction and internal growth has been and is expected to continue to be adequate to fund the shortfall.

The Company had approximately $1 billion in unused lines of credit at December 31, 1991, excluding amounts related to lines of credit which provide availability to support commercial paper. Although the Company was in compliance with the restrictive covenants contained in its credit facilities at said date, additional borrowings under the credit facilities are subject to the Company's continuing compliance with such restrictive covenants (which relate primarily to the maintenance of certain ratios of cash flow to total debt and cash flow to debt service, as defined). See note 8 to the accompanying consolidated financial statements for additional information regarding the material terms of the Company's lines of credit.

One measure of liquidity is commonly referred to as "interest coverage." Interest coverage, which is measured by the ratio of operating income before depreciation and amortization ($1,516 million, $1,335 million and $1,107 million in 1991, 1990 and 1989, respectively) to interest expense ($877 million, $918 million and $817 million in 1991, 1990 and 1989, respectively), is determined by reference to the consolidated statements of operations. The Company's interest coverage ratio was 173%, 145% and 135% for 1991, 1990 and 1989, respectively. Management of the Company believes that the foregoing interest coverage ratio is adequate in light of the consistency and nonseasonal nature of its cable television operations and the relative predictability of the Company's interest expense, more than half of which results from fixed rate indebtedness. As previously noted, the Company experienced improved operating results and there was a general decline in interest rates during 1991. These same factors led to an improvement in the Company's interest coverage ratio.

In connection with its merger with TCI in 1987, Heritage entered into certain credit facilities. Borrowings under such credit facilities (which aggregated $383 million at December 31, 1991) are due in June of 1992. On or before such date, the Company expects to refinance such borrowings along with any remaining liability ($80 million at December 31, 1991) related to the 1990 purchase of stock appreciation rights described above. Historically, the Company has been able, with the consent of its lenders, to refinance these types of borrowings and extend the scheduled maturities, although there can be no assurance that refinancings will continue to be accomplished on terms acceptable to the Company.

As security for borrowings under one of its credit facilities, the Company pledged a portion of the common stock it holds of Turner Broadcasting System, Inc. ("TBS"). Borrowings under this credit facility (which amounted to $238 million at December 31, 1991) are due in August of 1994. On or before such date, assuming there has been no significant decline in the value of the underlying collateral (approximately $550 million at December 31, 1991), the Company expects to refinance these borrowings and extend the maturity date. However, there can be no assurance that such a refinancing will be accomplished on terms acceptable to the Company.

The Company owns an equity interest in SCI Holdings, Inc. ("SCI"). SCI is obligated to repay $398 million in principal amount of its zero coupon senior notes on December 5, 1992. However, SCI does not expect cash flows generated from operations and available borrowing capacity under its existing credit agreements to satisfy the aforementioned 1992 debt obligation. As a result, SCI is pursuing various plans to meet this obligation, including the possibility of a transaction that would result in the ownership of its cable systems being split, on a tax-free basis, between the Company and the other shareholder. This transaction is expected to occur during 1992, although there can be no assurance that it will occur during 1992 or at all since consummation of the transaction will require the obtaining of private and/or public debt financing, certain regulatory and other consents and approvals, and the execution by the parties of binding agreements. In the event this transaction cannot be accomplished, SCI will need to seek alternative financing.

Other than SCI, the Company's various partnerships and other affiliates accounted for under the equity method generally fund their acquisitions, required principal repayments and capital expenditures through borrowings under their own credit facilities (which are generally not guaranteed by the Company) and through net cash provided by their own operating activities.

Certain subsidiaries' loan agreements contain restrictions regarding transfers of funds to the parent company in the form of loans, advances or cash dividends. The amount of net assets of such subsidiaries exceeds the Company's consolidated net assets. However, net cash provided by operating activities of other subsidiaries which are not restricted from making transfers to the parent company have been and are expected to continue to be sufficient to enable the parent company to meet its cash obligations.

Management believes that available lines of credit, net cash provided by operating activities, proceeds from disposition of assets and the Company's ability to obtain additional financing will provide adequate sources of short-term and long-term liquidity in the future.

CONSOLIDATED BALANCE SHEETS

December 31, 1991 and 1990

2•8

Assets	1991	1990
	amounts in millions	
Cash	$ 35	31
Trade and other receivables, net	249	278
Prepaid expenses	35	58
Investment in Liberty Media Corporation ("Liberty") (note 3)	459	–
Investments in other affiliates, accounted for under the equity method, and related receivables (note 4)	1,159	1,246
Investment in Turner Broadcasting System, Inc. (note 5)	463	380
Other investments, at cost, and related receivables (note 6)	231	420
Property and equipment, at cost:		
Land	157	168
Cable distribution systems	4,923	4,708
Theatre buildings and equipment	654	639
Support equipment and buildings	515	464
	6,249	5,979
Less accumulated depreciation	1,806	1,453
	4,443	4,526
Franchise costs	6,310	5,579
Less accumulated amortization	587	448
	5,723	5,131
Other assets, at cost, net of amortization	213	240
	$13,010	12,310

Liabilities and Stockholders' Equity	**1991**	*1990*
	amounts in millions	
Accounts payable	**$ 148**	150
Accrued interest	**97**	111
Other accrued expenses	**373**	366
Debt (note 8)	**9,910**	9,487
Deferred income taxes	**158**	132
Other liabilities	**183**	231
Total liabilities	**10,869**	10,477
Minority interests in equity of consolidated subsidiaries	**587**	1,211
Redeemable preferred stocks (note 9)	**115**	–
Stockholders' equity (note 10):		
Preferred stock, $1 par value. Authorized 10,000,000 shares, issued and outstanding 5,028,595 shares of redeemable preferred stocks in 1991	**–**	–
Class A common stock, $1 par value. Authorized 1,000,000,000 shares; issued 449,124,604 shares in 1991 and 310,483,215 shares in 1990	**449**	310
Class B common stock, $1 par value. Authorized 100,000,000 shares; issued 48,790,443 shares in 1991 and 47,465,826 shares in 1990	**49**	48
Additional paid-in capital	**1,738**	626
Accumulated deficit	**(464)**	(362)
	1,772	622
Treasury stock, at cost (79,335,038 shares of Class A common stock in 1991)	**(333)**	–
Total stockholders' equity	**1,439**	622
Commitments and contingencies (note 12)		
	$13,010	12,310

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended December 31, 1991, 1990 and 1989

	1991	*1990*	*1989*
	amounts in millions, except per share amounts		
Revenue (notes 4 and 7)	**$3,827**	3,625	3,026
Operating costs and expenses:			
Operating	**1,519**	1,554	1,287
Selling, general and administrative (note 4)	**792**	710	632
Theatre restructuring charge	**—**	26	–
Depreciation	**541**	503	410
Amortization	**171**	178	128
	3,023	2,971	2,457
Operating income	**804**	654	569
Other income (expense):			
Interest expense	**(877)**	(918)	(817)
Share of earnings of Liberty (note 3)	**43**	–	–
Share of net losses of other affiliates (note 4)	**(55)**	(60)	(89)
Gain (loss) on disposition of assets, net	**36**	(17)	61
Loss on early extinguishment of debt (note 8)	**(7)**	(12)	(26)
Compensation relating to stock appreciation rights	**—**	(25)	(75)
Minority interests in losses (earnings) of consolidated subsidiaries, net	**(25)**	62	33
Other, net (note 4)	**47**	52	42
	(838)	(918)	(871)
Loss before income taxes	**(34)**	(264)	(302)
Income tax benefit (expense) (note 11)	**(68)**	(23)	45
Net loss (note 7)	**$ (102)**	(287)	(257)
Loss per common share (note 7)	**$ (.28)**	(.81)	(.73)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years ended December 31, 1991, 1990 and 1989

	Common stock		Additional paid-in capital	Retained earnings (deficit)	Treasury stock	Total stockholders' equity
	Class A	Class B				
			amounts in millions			
Balance at January 1, 1989	$308	48	687	196	(33)	1,206
Net loss	–	–	–	(257)	–	(257)
Adjustment arising from business combination	–	–	–	(14)	–	(14)
Issuance of common stock upon exercise of options	–	–	1	–	–	1
Acquisition and retirement of common stock	–	–	(9)	–	–	(9)
Issuance of shares of Class A common stock for an acquisition from a related party (note 7)	–	–	5	–	–	5
Repurchase and retirement of warrants	–	–	(24)	–	–	(24)
Retirement of treasury stock	(1)	–	(12)	–	13	–
Balance at December 31, 1989	307	48	648	(75)	(20)	908
Net loss	–	–	–	(287)	–	(287)
Issuance of common stock upon conversion of notes	3	–	1	–	–	4
Reduction of paid-in capital resulting from issuance of treasury shares at less than cost upon exercise of warrants	–	–	(19)	–	20	1
Acquisition and retirement of common stock	–	–	(4)	–	–	(4)
Balance at December 31, 1990	310	48	626	(362)	–	622
Net loss	–	–	–	(102)	–	(102)
Issuance of common stock upon conversion of debentures	–	–	4	–	–	4
Issuance of common stock upon exercise of options	–	2	3	–	–	5
Income tax effect of stock option deduction	–	–	7	–	–	7
Retirement of common stock upon redemption of Liberty preferred stock (note 3)	(5)	–	(86)	–	–	(91)
Issuance of shares of Class A common stock for an acquisition	1	–	10	–	–	11
Issuance of common stock upon acquisition of remaining minority interest in UAE (note 7)	143	–	1,190	–	(333)	1,000
Acquisition and retirement of common stock	–	(1)	(16)	–	–	(17)
Balance at December 31, 1991	$449	49	1,738	(464)	(333)	1,439

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 1991, 1990 and 1989

	1991	*1990*	*1989*
	amounts in millions (see note 2)		
Cash flows from operating activities:			
Net loss	**$ (102)**	(287)	(257)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Theatre restructuring charge	**—**	26	–
Depreciation and amortization	**712**	681	538
Share of earnings of Liberty	**(43)**	–	–
Share of losses of other affiliates	**55**	60	89
Loss (gain) on disposition of assets	**(36)**	17	(61)
Loss on early extinguishment of debt	**7**	12	26
Compensation relating to stock appreciation rights	**—**	25	75
Payment for stock appreciation rights	**(45)**	(40)	–
Minority interests in earnings (losses)	**25**	(62)	(33)
Deferred income tax expense (benefit)	**58**	19	(50)
Amortization of debt discount	**16**	2	1
Noncash interest and dividend income	**(28)**	(33)	(8)
Other noncash charges	**—**	12	–
Changes in operating assets and liabilities, net of the effect of acquisitions:			
Change in receivables	**(16)**	(23)	(53)
Change in prepaid expenses	**19**	(5)	(7)
Change in accrued interest	**(14)**	(32)	59
Change in other accruals and payables	**44**	71	87
Net cash provided by operating activities	**652**	443	406
Cash flows from investing activities:			
Cash paid for acquisitions	**(399)**	(859)	(1,424)
Capital expended for property and equipment	**(592)**	(645)	(628)
Proceeds from disposition of assets	**129**	210	579
Additional investments in and loans to affiliates and others	**(280)**	(429)	(503)
Return of capital from affiliates	**41**	8	5
Repayment of loans to affiliates and others	**38**	71	3
Other investing activities	**(56)**	(27)	(201)
Net cash used in investing activities	**(1,119)**	(1,671)	(2,169)
Cash flows from financing activities:			
Borrowings of debt	**5,988**	8,196	7,663
Repayments of debt	**(5,498)**	(6,960)	(5,871)
Sales of equity securities of subsidiaries	**7**	28	13
Preferred stock dividends of subsidiaries	**(19)**	(21)	(11)
Issuances of common stock	**2**	1	–
Repurchase of common stock and warrants	**(9)**	(4)	(32)
Net cash provided by financing activities	**471**	1,240	1,762
Net increase (decrease) in cash	**4**	12	(1)
Cash at beginning of year	**31**	19	20
Cash at end of year	**$ 35**	31	19

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1991, 1990 and 1989

1 *Summary of Significant Accounting Policies*

Principles of Consolidation

The consolidated financial statements include the accounts of Tele-Communications, Inc. and those of all majority-owned subsidiaries ("TCI" or the "Company"). All significant inter-company accounts and transactions have been eliminated in consolidation.

Receivables

Receivables are reflected net of an allowance for doubtful accounts. Such allowance at December 31, 1991 and 1990 was not material.

Investments

Investments in which the ownership interest is less than 20% are generally carried at cost. Investments in marketable equity securities are carried at the lower of aggregate cost or market and any declines in value which are other than temporary are reflected as a reduction in the Company's carrying value of such investment. For those investments in affiliates in which the Company's voting interest is 20% to 50%, the equity method of accounting is generally used. Under this method, the investment, originally recorded at cost, is adjusted to recognize the Company's share of the net earnings or losses of the affiliates as they occur rather than as dividends or other distributions are received, limited to the extent of the Company's investment in, advances to and guarantees for the investee. The Company's share of net earnings or losses of affiliates includes the amortization of purchase adjustments.

Property and Equipment

Property and equipment is stated at cost, including acquisition costs allocated to tangible assets acquired and theatre lease acquisition costs. Construction costs, including interest during construction and applicable overhead, are capitalized. During 1991, 1990 and 1989, interest capitalized was not material.

Depreciation is computed on a straight-line basis using estimated useful lives of 5 to 15 years for cable distribution systems, 13 to 30 years for theatre buildings, theatre lease acquisition costs and equipment and 3 to 40 years for support equipment and buildings.

Repairs and maintenance are charged to operations, and renewals and additions are capitalized. At the time of ordinary retirements, sales or other dispositions of property, the original cost and cost of removal of such property are charged to accumulated depreciation, and salvage, if any, is credited thereto. Gains or losses are only recognized in connection with the sales of properties in their entirety. However, recognition of gains on sales of properties to affiliates accounted for under the equity method is deferred in proportion to the Company's ownership interest in such affiliates.

Franchise Costs

Franchise costs include the difference between the cost of acquiring cable television systems and amounts assigned to their tangible assets. Such amounts are generally amortized on a straight-line basis over 40 years. Costs incurred by the Company in obtaining franchises are being amortized on a straight-line basis over the life of the franchise, generally 10 to 20 years.

Minority Interests

Recognition of the minority interests' share of losses of consolidated subsidiaries is limited to the amount of such minority interests' allocable portion of the common equity of those consolidated subsidiaries. Further, the minority interests' share of losses is not recognized if the minority holders of common equity of consolidated subsidiaries have the right to cause the Company to repurchase such holders' common equity.

Included in minority interests in equity of consolidated subsidiaries are $334 million and $433 million, at December 31, 1991 and 1990, respectively, of preferred stocks (and accumulated dividends thereon) of certain subsidiaries. The current dividend requirements on these preferred stocks aggregate $54 million per annum and such dividend requirements are reflected as minority interests in the accompanying consolidated statements of operations.

Also included in minority interests in equity of consolidated subsidiaries was $579 million, at December 31, 1990, relating to the rights described in note 7.

Loss Per Common Share

The loss per common share for 1991, 1990 and 1989 was computed by dividing net loss by the weighted average number of common shares outstanding during such periods (359.9 million, 354.9 million and 353.0 million for 1991, 1990 and 1989, respectively). Common stock equivalents were not included in the computation of weighted average shares outstanding because their inclusion would be anti-dilutive.

Reclassification

Certain amounts have been reclassified for comparability with the 1991 presentation.

2 *Supplemental Disclosures to Consolidated Statements of Cash Flows*

Cash paid for interest was $875 million, $947 million and $757 million for 1991, 1990 and 1989, respectively. Also, during these years, cash paid for income taxes was not material.

Significant noncash investing and financing activities are as follows:

	Years ended December 31,		
	1991	*1990*	*1989*
		amounts in millions	
Acquisitions:			
Fair value of assets acquired	**$1,540**	969	2,608
Liabilities assumed	**(12)**	(68)	(303)
Minority interests in equity of acquired entities	**(3)**	(42)	(876)
Value of TCI preferred stock issued in acquisition	**(115)**	–	–
Value of TCI common stock issued in acquisitions	**(1,011)**	–	(5)
Cash paid for acquisitions	**$ 399**	859	1,424
Contribution of certain interests to affiliate in exchange for preferred stock (see note 3)	**$ 511**	–	–
Common stock received upon redemption of preferred stock of an affiliate (see note 3)	**$ 91**	–	–
Contribution of assets to an affiliate	**$ 108**	–	–
Common stock issued upon conversion of debentures (with accrued interest through conversion)	**$ 4**	4	–
Common stock surrendered in lieu of cash upon exercise of stock options	**$ 3**	–	1
Note payable issued for repurchase of common stock	**$ 5**	–	–
Exchange of cable television systems for limited partnership interest	**$ —**	60	–
Deferred tax liability resulting from stock option deduction	**$ 7**	–	–

3 *Investment in Liberty Media Corporation*

On March 28, 1991, Liberty Media Corporation ("Liberty"), an indirect, wholly-owned subsidiary of the Company until said date, issued shares of its common stock to TCI shareholders who, in the aggregate, tendered 8,713,696 shares of TCI Class A common stock and 2,737,712 shares of TCI Class B common stock to Liberty pursuant to an exchange offer. Also, on March 28, 1991, the Company contributed its interests in certain of its cable television programming businesses and cable television systems to Liberty in exchange for several different classes and series of preferred stock of Liberty with an aggregate issue price of $624 million. No gain or loss was recorded in connection with this transaction and, accordingly, the initial carrying value of such preferred stock of Liberty equals the aggregate carrying amount of the net assets contributed ($511 million).

In April of 1991, Liberty elected to exercise its right under the terms of its Series 2 Class B Exchangeable Serial Preferred Stock to redeem all of such preferred stock in exchange for 5,725,687 shares of TCI Class A common stock. The Class B Exchangeable Preferred Stock was one of four classes of preferred stock issued in connection with the March 28, 1991 transaction. All of the other classes of preferred stock issued to TCI, including the Series 1 Class B Exchangeable Serial Preferred Stock, remain outstanding. The 5,725,687 shares of its Class A common stock received by TCI were retired.

Of the classes of preferred stock of Liberty held by the Company, one class entitles TCI to elect a number of members of Liberty's board of directors equal to no less than 20% of the total number of directors, another class is exchangeable for TCI common stock and another class is convertible into common stock (less than 5%) of Liberty.

Due to the related party nature of the transaction, TCI accounts for its investment in Liberty under the equity method. Accordingly, the Company does not recognize any income relating to dividends, including preferred stock dividends, and the Company has continued to record the earnings or losses generated by the interests contributed to Liberty (by recognizing 100% of Liberty's earnings or losses before deducting preferred stock dividends).

On April 24, 1991, a subsidiary of Liberty purchased a 7.5% interest in the net assets, net losses and cash distributions of American Movie Classics Company, an affiliate of Liberty, from a subsidiary of the Company for $4 million in cash.

On December 30, 1991, the Company entered into a Commercial Paper Purchase Agreement with Liberty whereby the Company may sell short-term notes to Liberty of up to an aggregate amount of $100 million. The Company borrowed $22 million from Liberty on December 31, 1991, pursuant to the Commercial Paper Purchase Agreement. The full amount, including interest, was repaid on January 15, 1992. Interest rates on the short-term notes are determined by the parties by reference to prevailing money-market rates.

On December 31, 1991, a subsidiary of Liberty purchased certain securities of QVC Network, Inc. ("QVC") from TCI for $28 million in cash. The consideration for the QVC securities was based upon quoted market prices. At the same time, another subsidiary of Liberty sold a certain note receivable from American TeleVenture Corporation ("ATV") to the Company for $5 million in cash, and another subsidiary of Liberty sold all of the common stock of Cable Television Advertising Group, Inc. ("CTAG") to the Company for $23 million in cash. The only asset held by CTAG is a 49% general partnership interest in Cable AdNet Partners. The remaining 51% general partnership interest in Cable AdNet Partners is held by another subsidiary of the Company. The consideration for the ATV note was determined by reference to its face value, plus accrued interest. The ATV note bears interest at 2% above the prime rate. The consideration for the stock of CTAG was determined by reference to the price paid for the 51% general partnership interest in Cable AdNet Partners, which was acquired by the Company in November of 1991.

Also, on December 31, 1991, an Exchange Agreement among TCI (and certain of its subsidiaries) and Liberty (and certain of its subsidiaries) was consummated. Pursuant to this Exchange Agreement, TCI received 69% of the stock of ATV, 2,024,063 shares of common stock of International Cablecasting Technologies, Inc., a release from an obligation to reimburse Liberty related to the repurchase of QVC stock, a release of the option with respect to Cencom Cable Associates, Inc., and a note in the amount of $4 million issued by a subsidiary of Liberty. Liberty received a release from an obligation to provide two free months of Court TV, a 0.1% general partnership interest in US Cable of Northern Indiana, a 25% general partnership interest in SportsChannel Chicago Associates, an option to acquire an additional 25% general partnership intererst in SportsChannel Chicago Associates, and less than $1 million in cash. In the opinion of the respective managements of TCI and Liberty, the aggregate values of the assets exchanged were substantially equivalent. Further, the Exchange Agreement was approved by the respective Boards of Directors of TCI and Liberty.

No gain or loss was recorded on the foregoing transactions. Accordingly, the carrying amount of the Company's investment in Liberty preferred stock was adjusted to reflect these transactions, net of their related tax effects.

The Company purchases sports and other programming from certain subsidiaries of Liberty. Charges to TCI (which are based upon customary rates charged to others) for such programming were $25 million for the period from March 28, 1991 to December 31, 1991. Certain subsidiaries of Liberty purchase, at TCI's cost, certain pay television and other programming. Charges for such programming were $2 million for the period from March 28, 1991 to December 31, 1991.

TCI and Liberty have entered into a services agreement pursuant to which TCI provides, among other things, administrative and operational services. Charges by TCI in connection with the rendering of such services amounted to $3 million for the period from March 28, 1991 to December 31, 1991.

Summarized unaudited financial information of Liberty as of December 31, 1991 and for the period from March 29, 1991 through December 31, 1991 is as follows (amounts in millions):

Consolidated Financial Position	
Cash and cash equivalents	$100
Investment in TCI common stock	104
Receivable from TCI	26
Other investments and related receivables	486
Other assets, net	102
Total assets	$818
Debt	$ 64
Deferred income taxes	56
Other liabilities	35
Minority interests	14
Redeemable preferred stocks	142
Stockholders' equity	507
Total liabilities and stockholders' equity	$818

Consolidated Operations	
Revenue	$ 85
Operating expenses	(74)
Depreciation and amortization	(10)
Operating income	1
Interest expense	(5)
Other, net	47
Net earnings	$ 43

Subsequent to December 31, 1991, subsidiaries of Liberty and TCI created a partnership for the purpose of acquiring and operating cable television systems. The partners each agreed to contribute certain non-cash assets to the partnership and up to $25 million of cash as needed to fund mutually acceptable acquisitions. TCI will contribute all of its shares of one of the four classes of Liberty preferred stock to the partnership.

Also, subsequent to December 31, 1991, Liberty entered into an agreement to increase its economic and voting interest in Lenfest Communications, Inc. ("LCI") to 50%. Liberty's investment in LCI, which was previously accounted for under the cost method, was received from TCI in the March 28, 1991 transaction described above. Upon consummation of the agreement to increase its interest in LCI to 50%, Liberty will adopt the equity method of accounting. As a result of the foregoing, TCI will restate its investment, results of operations and retained earnings with respect to its ownership interest in LCI up to March 28, 1991. As of that date, TCI will reduce (by $72 million) the carrying amount of its investment in Liberty preferred stock.

4 *Investments in Other Affiliates*

Investments in affiliates, other than Liberty (see note 3), accounted for under the equity method, amounted to $1,107 million and $1,132 million at December 31, 1991 and 1990, respectively. Included in these amounts are the Company's investments in the common stock of SCI Holdings, Inc. ("SCI") and the preferred stock of its wholly-owned subsidiary, Storer Communications, Inc. ("Storer"), which investments aggregated $767 million and $886 million at December 31, 1991 and 1990, respectively.

Certain of the Company's affiliates are general partnerships and any subsidiary of the Company that is a general partner in a general partnership is, as such, liable as a matter of partnership law for all debts (other than non-recourse debts) of that partnership in the event liabilities of that partnership were to exceed its assets.

In connection with the Company's 1988 acquisition of an equity interest in SCI, a subsidiary of the Company issued certain debt and equity securities to Storer for $650 million. Interest charges and preferred stock dividend requirements on these debt and equity securities aggregated $89 million, $87 million and $86 million for 1991, 1990 and 1989, respectively. The Company's share of losses of SCI for 1991, 1990 and 1989 amounted to $54 million, $54 million and $60 million, respectively, as adjusted for the effect of interest and dividends accounted for by Storer as capital transactions due to their related party nature.

In order to meet a certain 1992 debt obligation, SCI is currently pursuing various plans, including the possibility of a transaction that would result in the ownership of its cable systems being split, on a tax-free basis, between the Company and the other shareholder. This transaction is expected to occur during 1992, although there can be no assurance that it will occur during 1992 or at all since consummation of the transaction will require the obtaining of private and/or public debt financing, certain regulatory and other consents and approvals, and the execution by the parties of binding agreements. In any event, it is expected that the Company's investment in SCI will remain recoverable whether or not the aforementioned transaction is consummated.

The Company has a management consulting agreement with Storer which provides for the operational management of certain of Storer's cable television systems by TCI. This agreement provides for a management fee based on 3.5% of the revenue of those cable television systems managed by the Company. The Company has also entered into a programming service agreement with Storer whereby the Company, for a fee, manages Storer's purchases of programming. The total management fees under the consulting and programming service agreements amounted to $7 million, $7 million and $8 million during 1991, 1990 and 1989, respectively (which amounts are recorded as a reduction of selling, general and administrative expenses in the accompanying consolidated statements of operations).

In addition to its investment in Liberty (see note 3), the Company has other investments in affiliates accounted for under the equity method. Summarized unaudited financial information for such affiliates (including those contributed to Liberty through March 28, 1991), which operate principally in the cable television and motion picture theatre exhibition industries, is as follows:

Combined Financial Position	December 31, 1991	December 31, 1990
	amounts in millions	
Property and equipment, net	**$1,149**	1,637
Franchise costs, net	**2,712**	3,004
Other assets, net	**305**	1,408
Total assets	**$4,166**	6,049
Debt	**$2,606**	3,846
Due to TCI	**52**	114
Deferred income taxes	**867**	879
Other liabilities	**221**	507
Redeemable preferred stock	**674**	576
Owners' equity	**1,280**	1,582
Investment in related parties	**(1,534)**	(1,455)
Total liabilities and equity	**$4,166**	6,049

Combined Operations	Years ended December 31, 1991	1990	1989
		amounts in millions	
Revenue	**$1,481**	2,100	1,375
Operating expenses	**(1,010)**	(1,540)	(909)
Depreciation and amortization	**(330)**	(397)	(357)
Operating income	**141**	163	109
Interest expense	**(374)**	(477)	(463)
Other, net	**(47)**	(5)	(22)
Net loss	**$ (280)**	(319)	(376)

Certain affiliates and other companies buy programming under contractual arrangements with the Company at a price which, in certain circumstances, is greater than the Company's cost of acquiring such programming. Billings by the Company for such programming were $16 million, $55 million and $50 million for 1991, 1990 and 1989, respectively (which amounts are included in revenue in the accompanying consolidated statements of operations).

The Company has interest bearing receivables due from certain affiliates and other companies. Income on such receivables amounted to $52 million, $64 million and $45 million for 1991, 1990 and 1989, respectively (which amounts are included in other income in the accompanying consolidated statements of operations).

5 *Investment in Turner Broadcasting System, Inc.*

In 1987, the Company and several other cable television operators purchased shares of two classes of preferred stock of Turner Broadcasting System, Inc. ("TBS"). During 1991, TBS made an offer to exchange shares of one class of its preferred stock (and accrued dividends thereon) for shares of TBS common stock and, as a result, the Company received common shares valued at $178 million. Shares of the other class of preferred stock have voting rights and are convertible into shares of TBS common stock. The holders of those preferred shares, as a group, are entitled to elect seven of fifteen members of the board of directors of TBS, and the Company appoints three such representatives. However, voting control over TBS continues to be held by its chairman of the board and chief executive officer (an unrelated third party). The Company's total holdings of TBS common and preferred stocks represent an approximately 12% voting interest.

The Company's investment in TBS common stock had an aggregate market value of $679 million and $157 million (which exceeded cost by $368 million and $59 million) at December 31, 1991 and 1990, respectively. In addition, the Company's investment in TBS preferred stock had an aggregate market value of $817 million and $527 million (which exceeded cost by $665 million and $245 million) at December 31, 1991 and 1990, respectively.

6 *Other Investments*

Other investments, accounted for under the cost method, and related receivables are summarized as follows:

	December 31,	
	1991	*1990*
	amounts in millions	
Limited partnership interest in, and related receivables from, Intermedia Partners	**$ 70**	155
Convertible preferred stock investment	**61**	–
Assets, purchased in acquisitions, held for resale	**11**	21
Common stock investment	**—**	72
Convertible debt, accrued interest and preferred stock investment	**—**	45
Other investments and related receivables	**89**	127
	$231	420

The Company's interest in Intermedia Partners ("Intermedia") is accounted for under the cost method although TCI's ownership approximates 32%. The cost method of accounting is considered appropriate because the limited partners (including TCI) of Intermedia have no voting control over Intermedia's operating and financial policies. Such control rests entirely with the general partner (an unrelated third party).

7 *Acquisitions*

In connection with the merger pursuant to which United Artists Communications, Inc. ("UACI") and United Cable Television Corporation ("United") became wholly-owned subsidiaries of United Artists Entertainment Company ("UAE"), TCI issued certain rights which entitled each holder thereof to sell to TCI, at certain defined times in the future, a share of either class of UAE common stock at a price equal to 90% of its appraised value.

During May of 1991, TCI commenced a tender offer for the rights referred to in the preceding paragraph. The tender offer expired on June 21, 1991 and the Company acquired 29,326,374 rights for an aggregate consideration of $139 million. The exercise period for the remaining 742,746 rights was accelerated by virtue of the signing of the merger agreement described in the next paragraph. An aggregate of 535,680 rights were validly exercised in the accelerated exercise period for an aggregate consideration of $9 million.

On June 7, 1991, the Company and UAE entered into an Agreement and Plan of Merger pursuant to which the Company would acquire all remaining shares of UAE stock not already owned by TCI. The acquisition was structured as a tax-free merger in which shares of UAE common stock were exchanged for shares of TCI Class A common stock and UAE's outstanding preferred stock was converted into comparable preferred stock to be issued by TCI. Under the terms of the merger, each outstanding share of UAE Class A or Class B common stock was converted into 1.02 of a share of TCI Class A common stock. The merger was consummated on December 2, 1991 and 63,754,709 shares (net of treasury shares) of TCI Class A common stock were issued, valued at $1 billion.

The acquisition of the remaining minority interest in UAE was accounted for by the purchase method. On a pro forma basis, the Company's revenue would have remained unchanged, net loss would have increased by $13 million and $40 million, and loss per common share would have been reduced by $.01 and $.03 for 1991 and 1990, respectively, had the acquisition of the remaining minority interest of UAE occurred at the beginning of

1990. Although the Company's net loss would have increased, the loss per common share would have been reduced, on a pro forma basis, as a result of the significant number of shares of common stock issued by TCI in the aforementioned merger.

Additionally, during 1991, the Company acquired the stock, assets, remaining minority interests or additional interests in partnerships of various cable television systems and motion picture theatres for aggregate consideration of $392 million, including liabilities assumed. These acquisitions were accounted for by the purchase method. Accordingly, the results of operations of such acquired entities have been included with those of the Company since their respective dates of acquisition.

The Company and a number of other cable television system operators entered into separate purchase agreements in 1989 to acquire certain cable television systems owned by Jack Kent Cooke Incorporated, Cooke Media Group Inc. and certain of their direct and indirect subsidiaries. The Company's acquisition of the cable television systems specified in its own purchase agreement was consummated in January of 1990 for $398 million.

The Company and WestMarc Communications, Inc. ("WestMarc"), one of its then majority-owned subsidiaries, entered into a merger agreement in 1989 providing for the acquisition of the remaining minority interest in WestMarc. This acquisition was consummated in January of 1990 for $205 million.

Additionally, during 1990, the Company acquired the stock, assets, remaining minority interests or additional interests in partnerships of various cable television systems and motion picture theatres for aggregate consideration of $366 million, including liabilities assumed. These acquisitions were accounted for by the purchase method. Accordingly, the results of operations of such acquired entities have been included with those of the Company since their respective dates of acquisition.

During 1989, the Company acquired the remaining 50% interest in a cable television company from an officer of TCI for an aggregate consideration of $7 million (including 345,438 shares of TCI Class A common stock), plus liabilities assumed amounting to $8 million.

8 *Debt*

Debt is summarized as follows:

	Weighted-average interest rate at December 31, 1991	*December 31,* **1991**	*1990*
		amounts in millions	
Parent company debt:			
Senior notes	9.9%	**$ 981**	684
Liquid Yield Option™ Notes (a)	7.3%	**360**	–
Subordinated debentures (b)	7.0%	**245**	261
Bank credit facilities	5.5%	**365**	544
Commercial paper	5.7%	**38**	–
Other debt		**1**	1
		1,990	1,490
Debt of subsidiaries:			
Bank credit facilities	6.2%	**5,728**	5,769
Commercial paper	6.2%	**9**	7
Notes payable	10.6%	**1,512**	1,490
Notes payable to Storer	9.0%	**475**	475
Convertible notes (c)	9.5%	**48**	48
Other debt		**148**	208
		$9,910	9,487

(a) These subordinated notes, which are stated net of unamortized discount of $790 million at December 31, 1991, were issued through a public offering. These notes are not redeemable prior to April 25, 1993, unless the closing sales price of TCI Class A common stock equals or exceeds $27.09 per share for a specified period. Subject to the foregoing, the notes are redeemable, in whole or in part, at the option of the Company at the issue price plus accrued original issue discount. Additionally, the Company will purchase any note, at the option of the holder, as of April 25, 1996, April 25, 2001 or April 25, 2006 at the issue price plus accrued original issue discount through such dates. The Company, at its option, may elect to pay the purchase price in cash and/or shares of TCI Class A common stock. The notes mature on April 25, 2008. These notes are convertible, at the option of the holders, at any time prior to maturity, into an aggregate of 18,975,000 shares of Class A common stock.

(b) These subordinated debentures were issued through public offerings and are redeemable, in whole or in part, at the Company's option, at par plus declining premiums, beginning at various dates.

Interest Rate	Maturity Date	Conversion Price	December 31, 1991	December 31, 1990
			amounts in millions	
7%	October, 2012	$17.00	**$245**	250
11⅛%	October, 2003	None	**—**	11
			$245	261

At December 31, 1991, the 7% subordinated debentures were convertible, at the option of the holders, into an aggregate of 14,402,294 shares of Class A common stock.

2•20

(c) These convertible notes, which are stated net of unamortized discount of $201 and $202 million at December 31, 1991 and 1990, respectively, mature on December 18, 2021. The notes require (so long as conversion of the notes has not occurred) an annual interest payment through 2003 equal to 1.85% of the face amount of the notes. At December 31, 1991, the notes were convertible, at the option of the holders, into an aggregate of 41,941,990 shares of Class A common stock. During 1991, certain of these notes were converted into 92,000 shares of Class A common stock.

The Company's bank credit facilities and various other debt instruments generally contain restrictive covenants which require, among other things, the maintenance of certain earnings, specified cash flow and financial ratios (primarily the ratios of cash flow to total debt and cash flow to debt service, as defined), and include certain limitations on indebtedness, investments, guarantees, dispositions, stock repurchases and dividend payments.

The maximum dividends allowable under the most restrictive debt covenant was $1,373 million at December 31, 1991. Certain of the Company's subsidiaries are subject to loan agreements that prohibit or limit the transfer of funds of such subsidiaries to the parent company in the form of loans, advances or cash dividends. The amount of net assets of subsidiaries subject to such restrictions exceeds the Company's consolidated net assets.

As security for borrowings under one of its credit facilities, the Company pledged a portion of the common stock (with a quoted market value of approximately $550 million at December 31, 1991) it holds of TBS.

During 1991, TCI repurchased and cancelled $11 million of its 11⅛% senior subordinated debentures and $5 million of its 7% convertible subordinated debentures. Also during 1991, the Company repurchased $115 million of the public notes, with rates ranging from 11½% to 13%, of Heritage Communications, Inc. ("Heritage"), an 80.1%-owned subsidiary of TCI. In December of 1990, $100 million of 6⅜% convertible debentures of UAE were redeemed at 101% of the principal amount.

In order to provide interest rate protection on a portion of its variable rate indebtedness, the Company has entered into various interest rate exchange agreements pursuant to which it pays fixed interest rates, ranging from 7.72% to 12.56%, on notional amounts of $1,161 million. The Company is exposed to credit losses for the periodic settlements of amounts due under these interest rate exchange agreements in the event of nonperformance by the other parties to the agreements. However, the Company does not anticipate nonperformance by the counterparties and, in any event, such amounts were not material at December 31, 1991.

The Company has also entered into various interest rate hedge agreements on notional amounts of $835 million which fix the maximum variable interest rates, at rates ranging from 10% to 12%. The term of such agreements is generally from two to five years.

TCI and certain of its subsidiaries are required to maintain unused availability under bank credit facilities to the extent of outstanding commercial paper. Also, TCI and certain of its subsidiaries pay fees, generally ¼% to ⅜% per annum, on the average unborrowed portion of the total amount available for borrowings under bank credit facilities.

Annual maturities of debt for each of the next five years are as follows:

	Parent	*Total*
	amounts in millions	
1992	$ 89*	624**
1993	47	279
1994	45	424
1995	104	393
1996	125	503

*Includes $38 million of commercial paper.
**Includes $47 million of commercial paper.

9 *Redeemable Preferred Stocks*

	December 31,	
	1991	*1990*
	amounts in millions	
12⅞% Cumulative Compounding Preferred Stock, Series A; issued and outstanding 5,022,394 shares (a)	**$ 97**	–
6¾% Convertible Preferred Stock, Series B; issued and outstanding 6,201 shares (b)	**18**	–
	$115	–

(a) The 12⅞% Cumulative Compounding Preferred Stock was issued in conjunction with the UAE merger and is stated at its redemption value of $19.25 per share. Dividends are cumulative and accrue at 12⅞% of the redemption value. Accrued dividends are payable quarterly and unpaid dividends are added to the redemption price and accrue dividends until paid. This preferred stock is redeemable at the option of the Company at any time after January 1, 1992 in whole or in part, at the redemption value plus accrued dividends. On January 1, 1999, the Company is required to redeem one-half of the shares then outstanding. The remaining shares outstanding must be redeemed on January 1, 2000.

(b) The 6¾% Convertible Preferred Stock was also issued in the UAE merger and is stated at its redemption value of $3,000 per share, and each share is convertible into 204 shares of TCI Class A common stock. Unpaid dividends will be added to the redemption value and will accrue interest, until paid, at 6¾% per annum thereafter. Interest charged on unpaid dividends outstanding for two consecutive quarters will increase to 15% per annum. This preferred stock is subject to optional redemption by the Company, in whole or in part, with mandatory redemption by May 25, 1999, in each case at the redemption value plus accrued dividends. The stock is also subject to redemption by the Company at the option of the holder, in whole or in part, at the redemption price plus accrued dividends.

Each of the preferred stock issues are senior to the Company's common stock and equal with each other with respect to the declaration and payment of dividends and liquidating distributions and have no voting rights except the right to vote as a separate class on any amendment to the Company's Restated Certificate of Incorporation (as amended) that would adversely affect the preferences and rights of such holders.

Common Stock

The Class A common stock has one vote per share and the B common stock has ten votes per share. Each share of Class B common stock is convertible, at the option of the holder, into one share of Class A common stock.

Employee Benefit Plans

The Company has an Employee Stock Purchase Plan ("ESPP") to provide employees an opportunity for ownership in the Company and to create a retirement fund. Terms of the ESPP provide for employees to contribute up to 10% of their compensation to a trust for investment in TCI common stock. The Company, by annual resolution of the Board of Directors, contributes up to 100% of the amount contributed by employees. Certain of the Company's subsidiaries have their own employee benefit plans. Contributions to all plans aggregated $13 million, $12 million and $9 million for 1991, 1990 and 1989, respectively.

Stock Options

The Company has employment agreements with two officers (who are also directors) pursuant to which each such officer was granted an option, expiring December 31, 1991, to acquire 1,200,000 shares of Class B common stock at an adjusted purchase price of $1.10 per share. In June of 1991, one of the aforementioned officers exercised in full his option to acquire 1,200,000 shares of Class B common stock by delivery of 80,000 shares of Class B common stock valued at $16.50 per share and, on the same date, sold 400,000 of such option shares (at a price of $16.50 per share) to TCI for cash and a short-term note. In December of 1991, the other officer exercised his option to purchase 900,000 shares of Class B common stock by delivery of 63,871 shares of Class A common stock valued at $15.50 per share. Such officer agreed to forego exercising the balance of his option to purchase 300,000 shares of Class B common stock in exchange for the payment by the Company of $4,320,000 as compensation to be applied towards federal and state income taxes withheld by the Company for his account.

Two other officers (one of whom is also a director) were granted options to purchase the Company's stock. Each of these officers hold an option to acquire 200,000 shares of Class A common stock at an adjusted purchase price of $10.00 per share. One of such officers received payment of $550,000 from the Company in December of 1991 upon cancellation of a portion of his option covering 100,000 shares. The amount paid was based on the then market value of Class A common stock of $15.50 per share. The remaining options expire in June of 1993.

The Company has an Incentive Stock Option Plan ("ISOP") originally covering 3,000,000 shares of Class A common stock and 900,000 shares of Class B common stock. Options granted under the ISOP must have an option price equal to the fair market value on the date of grant, become exercisable beginning one year from the date of grant and expire five years from the date of grant. There have been no options granted to purchase Class B common stock. The following table presents information relating to options to purchase Class A common stock under the ISOP:

	1991	1990	1989
Outstanding at January 1	**765,298**	921,098	712,268
Granted	**—**	–	415,000
Exercised ($3.875 per share)	**—**	(139,100)	(127,368)
Exercised ($10.00 per share)	**(63,642)**	(11,400)	(78,802)
Exercised ($17.25 per share)	**(15,000)**	–	–
Cancelled	**(15,000)**	(5,300)	–
Outstanding at December 31	**671,656**	765,298	921,098
Price range at December 31	**$10.00 to $17.25**	$10.00 to $17.25	$3.875 to $17.25
Exercisable at December 31	**671,656**	765,298	506,098
Available for grant at December 31	**1,080,900**	1,065,900	1,060,600

In connection with the UAE merger, TCI assumed certain stock options previously granted by UAE to certain of its employees. These options, which are currently exercisable, represent the right to acquire 1,348,758 shares of TCI Class A common stock at adjusted purchase prices ranging from $8.83 to $18.63 per share. No additional options may be granted by UAE.

Other

The excess of consideration received on debentures converted or options exercised over the par value of the stock issued is credited to additional paid-in capital.

At December 31, 1991, there were 78,904,702 Class A shares of TCI common stock reserved for issuance under exercise privileges related to options and convertible debt securities described in this note 10 and in notes 8 and 9. In addition, one share of Class A common stock is reserved for each share of Class B common stock.

11 *Income Taxes*

TCI files a consolidated Federal income tax return with all of its 80% or more owned subsidiaries. Consolidated subsidiaries in which the Company owns less than 80% each file a separate consolidated Federal income tax return. TCI and such subsidiaries calculate their respective tax liabilities on a separate return basis which are combined in the accompanying consolidated financial statements.

Income tax benefit (expense) consists of:

	Years ended December 31,		
	1991	*1990*	*1989*
		amounts in millions	
Current tax benefit (expense), net:			
Federal	**$ (3)**	–	2
State	**(7)**	(4)	(7)
	(10)	(4)	(5)
Deferred tax benefit (expense)	**(58)**	(19)	50
	$(68)	(23)	45

Total income tax benefit (expense) differed from the expected statutory tax benefit (expense) as follows:

	Years ended December 31,		
	1991	1990	1989
		amounts in millions	
Expected statutory tax benefit	**$ 12**	90	103
Benefit arising from investment tax credit ("ITC"), net of corresponding basis reduction and recapture	**—**	12	15
Limitation on utilization of net operating losses of a subsidiary for financial statement purposes	**(18)**	(53)	–
Depreciation and amortization not deductible for income tax purposes	**(51)**	(50)	(35)
Dividends excluded for income tax purposes	**13**	–	–
Loss on disposition of assets not deductible for income tax purposes	**—**	(10)	(3)
Losses of corporate affiliates	**(4)**	(21)	(27)
Minority interests in losses (earnings) of consolidated subsidiaries	**(13)**	13	12
State and local income taxes, net of Federal income tax benefit	**(5)**	(3)	(4)
Gain on sale of assets for income tax purposes in excess of gains for financial statement purposes	**—**	–	(19)
Rate differential related to financial statement net operating loss carryback	**—**	–	4
Alternative minimum tax	**(1)**	–	–
Other, net	**(1)**	(1)	(1)
	$(68)	(23)	45

Deferred tax benefit (expense) results from timing differences in the recognition of revenue and expense for income tax and financial statement purposes and from adjustment of deferred tax credits. The sources of these differences and the tax effect of each were as follows:

	Years ended December 31,		
	1991	*1990*	*1989*
	amounts in millions		
Excess depreciation and amortization for income tax purposes	**$(91)**	(90)	(81)
Partnership losses for income tax purposes in excess of financial statement losses	**(40)**	(43)	(26)
Differences in recognition of gains on disposition of assets	**(25)**	10	52
Differences in recognition of compensation relating to stock appreciation rights for income tax and financial statement purposes	**—**	(22)	24
Differences in recognition of UAE merger costs	**(5)**	–	–
Differences in dividend income recognized for financial statement purposes and income tax purposes	**4**	(16)	–
Income tax deductions for stock options exercised	**(5)**	–	(6)
Other, net	**(1)**	(5)	(9)
Deferred tax expense before adjustment of deferred tax credits	**(163)**	(166)	(46)
Benefit arising from ITC recognized for financial statement purposes, net of corresponding basis reduction and recapture	**—**	12	15
Increase in ITC carryforward resulting from tax net operating loss carryback	**—**	–	1
Differences in recognition of tax net operating losses for tax and financial statement purposes	**105**	135	76
Rate differential related to financial statement net operating loss carryback	**—**	–	4
	$(58)	(19)	50

2•24

At December 31, 1991, the Company had net operating loss carryforwards for income tax purposes aggregating approximately $1,257 million of which, if not utilized to reduce taxable income in future periods, $31 million expires through 1998, $30 million in 1999, $144 million in 2000, $31 million in 2001, $76 million in 2002, $152 million in 2003, $132 million in 2004, $383 million in 2005 and $278 million in 2006. Substantially all such net operating losses have been recognized for financial statement purposes as a reduction of deferred income taxes. To the extent the net operating loss carryforwards are utilized for income tax purposes, deferred tax credits will be restored at the then current rates. Certain subsidiaries of the Company had additional net operating loss carryforwards for income tax purposes aggregating approximately $611 million and these net operating losses are subject to certain rules limiting their usage. At December 31, 1991, one of the Company's subsidiaries (which had filed a separate consolidated Federal income tax return) had a net operating loss carryforward for financial statement purposes of approximately $121 million.

At December 31, 1991, the Company had remaining available investment tax credits of approximately $110 million which, if not utilized to offset future Federal income taxes payable, expire at various dates through 2005. Substantially all such investment tax credits have been recognized for financial statement purposes as a reduction of deferred income taxes. To the extent the investment tax credit carryforward is utilized for income tax purposes, deferred tax credits will be restored at the then current rates. The benefits from investment tax credits are recorded when such credits are used to reduce current or deferred income taxes payable. Certain subsidiaries of the Company had additional investment tax credit carryforwards aggregating approximately $81 million and these investment tax credit carryforwards are subject to certain rules limiting their usage. At December 31, 1991, one of the Company's subsidiaries (which had filed a separate consolidated Federal income tax return) had an investment tax credit carryforward for financial statement purposes of approximately $9 million.

Certain of the Federal income tax returns of TCI and its subsidiaries which filed separate income tax returns are presently under examination by the Internal Revenue Service ("IRS") for the years 1978 through 1991. In the opinion of management, any additional tax liability, not previously provided for, resulting from these examinations, ultimately determined to be payable, should not have a material adverse effect on the consolidated financial position of the Company. The Company pursued a course of action on certain issues (primarily the deductibility of franchise cost amortization) the IRS had raised and such issues were argued before the United States Tax Court. During 1990, the Company received a favorable decision regarding these issues. The IRS has appealed this decision.

The Financial Accounting Standards Board has issued Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," which will supersede Statement 96, "Accounting for Income Taxes." The Company currently accounts for income taxes under Accounting Principle Board Opinion No. 11, having elected not to adopt Statement 96 prior to its required effective date. Statement 109 will change the Company's method of accounting for income taxes from the deferred method required under APB 11 to the asset and liability method. The Company presently does not know and cannot reasonably estimate the impact of Statement 109 on its financial statements. Statement 109 is effective for fiscal years beginning after December 15, 1992. The Company has not made a determination whether it will restate any prior years or adopt Statement 109 in 1993 on a prospective basis.

12 *Commitments and Contingencies*

In connection with the acquisition from TCI of a 19.9% minority interest in Heritage by Comcast Corporation ("Comcast"), Comcast was granted the right, beginning in July of 1993, to require TCI to purchase or cause to be purchased from Comcast all shares of Heritage directly or indirectly owned by Comcast for either cash or, at TCI's election, shares of TCI common stock.

The Company leases business offices and motion picture theatres, has entered into pole rental agreements and uses certain equipment under lease arrangements. Minimum rental expense under such arrangements, net of sublease rentals, amounted to $99 million, $104 million and $94 million for 1991, 1990 and 1989, respectively. Contingent rentals for 1991, 1990 and 1989 were $5 million, $6 million and $7 million, respectively.

Future minimum lease payments under noncancellable operating leases for each of the next five years are summarized as follows (amounts in millions):

Years ending December 31,	
1992	$67
1993	66
1994	62
1995	58
1996	54

It is expected that, in the normal course of business, expiring leases will be renewed or replaced by leases on other properties; thus, it is anticipated that future minimum lease commitments will not be less than the amount shown for 1992.

13 *Information About the Company's Operations*

The Company principally operates in two industries, cable television ("Cable") and motion picture theatre exhibition ("Theatre"). Subsequent to December 31, 1991, the Company agreed to sell its motion picture theatre business and certain theatre-related real estate assets. However, TCI's Board of Directors has not adopted a formal plan of disposition in the event that the aforementioned agreement is not consummated. Accordingly, the operations of the Company's motion picture theatre exhibition industry segment will not be reflected as "discontinued operations" unless and until the proposed sale is consummated.

Operating income is total revenue less operating costs and expenses which includes an allocation of corporate general and administrative expenses. Identifiable assets by industry are those assets used in the Company's operations in each industry. The Company has several investments, accounted for under the equity method, which operate primarily in the United States and are principally in the cable television and motion picture theatre exhibition industries. The following is selected information about the Company's operations for 1991, 1990 and 1989:

	Cable	Theatre	Total
		amounts in millions	
1991:			
Revenue	$ 3,206	621	3,827
Operating income	$ 760	44	804
Depreciation and amortization	$ 670	42	712
Capital expenditures, including acquisitions	$ 667	27	694
Identifiable assets	$12,300	710	13,010
1990:			
Revenue	$ 2,942	683	3,625
Operating income	$ 628	26	654
Depreciation and amortization	$ 631	50	681
Capital expenditures, including acquisitions	$ 958	32	990
Identifiable assets	$11,535	775	12,310
1989:			
Revenue	$ 2,362	664	3,026
Operating income	$ 516	53	569
Depreciation and amortization	$ 491	47	538
Capital expenditures, including acquisitions	$ 1,454	57	1,511
Identifiable assets	$10,547	885	11,432

14 *Quarterly Financial Information (Unaudited)*

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	amounts in millions, except per share amounts			
1991:				
Revenue	$ 963	922	975	967
Operating income	$ 210	204	211	179
Gain (loss) on disposition of assets	$ –	(2)	(2)	40
Income tax expense	$ (20)	(7)	(20)	(21)
Net loss	$ (25)	(25)	(26)	(26)
Loss per common share	$ (.07)	(.07)	(.07)	(.07)
1990:				
Revenue	$ 861	890	942	932
Theatre restructuring charge	$ –	–	–	(26)
Operating income	$ 165	173	192	124
Gain (loss) on disposition of assets	$ –	31	(12)	(36)
Income tax expense	$ (8)	(4)	(2)	(9)
Net loss	$ (67)	(44)	(52)	(124)
Loss per common share	$ (.19)	(.12)	(.15)	(.35)

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Tele-Communications, Inc.:

We have audited the accompanying consolidated balance sheets of Tele-Communications, Inc. and subsidiaries as of December 31, 1991 and 1990, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1991. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Tele-Communications, Inc. and subsidiaries as of December 31, 1991 and 1990, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1991, in conformity with generally accepted accounting principles.

KPMG Peat Marwick

KPMG Peat Marwick
Denver, Colorado
March 21, 1992

Officers

Bob Magness
Chairman of the Board

John C. Malone, Ph.D.
President and Chief Executive Officer

Donne F. Fisher, C.P.A.
Executive Vice President

J.C. Sparkman
Executive Vice President

Fred A. Vierra
Executive Vice President

Brendan R. Clouston
Executive Vice President

Gary K. Bracken, C.P.A.
Senior Vice President and Controller

Stephen M. Brett
Senior Vice President and General Counsel

Robert J. Lewis
Senior Vice President Corporate Development

Larry E. Romrell
Senior Vice President

Bernard W. Schotters
Senior Vice President, Finance and Treasurer

Robert N. Thomson
Senior Vice President Communications and Policy Planning

Gary S. Howard
Vice President

Merlin L. Anderson
Assistant Vice President and Assistant Controller

David R. Humphrey, C.P.A.
Assistant Vice President Financial Reporting

Colin R. Stoner, C.P.A.
Assistant Vice President Taxation

Paul J. O'Brien
Secretary

Gerald Sokol
Assistant Treasurer

Executive Offices

Terrace Tower II
5619 DTC Parkway
Englewood, CO 80111-3000
303-267-5500

Board of Directors

Donne F. Fisher
John W. Gallivan
Kim Magness
Bob Magness
John C. Malone
Robert A. Naify
Paul J. O'Brien

Auditors

KPMG Peat Marwick
Denver, Colorado

Transfer Agents and Registrar

First Security Bank of Utah, N. A.
Salt Lake City, Utah
The Bank of New York
New York, New York

Counsel

Law Offices of Jerome H. Kern
New York, New York

Sherman & Howard
Denver, Colorado

The Company's securities are traded in the National Association of Securities Dealers (NASD) National Market System under the symbols TCOMA, TCOMB for the Common Stock, TCOMH for the Convertible Debentures, and TCOMG for the Liquid Yield Option™ Notes.

The Form 10-K filed with the Securities and Exchange Commission may be obtained without charge by written request to the Investor Relations Department at Tele-Communications, Inc., P.O. Box 5630, Denver, Colorado 80217 or by calling (303)843-8877.

™Merrill Lynch & Co., Inc.

Editor: Carolyn M. Smith; Greenberg, Baron, Simon & Miller **Design:** Bob Coonts Design Group **Photography:** Thomas Arledge **Typography:** Amazon Typesetting **Illustration:** Steve Johnson

TELE-COMMUNICATIONS, INC.

Post Office Box 5630
Denver, CO 80217-5630