IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

IN AND FOR NEW CASTLE COUNTY

PARAMOUNT COMMUNICATIONS INC. and KDS ACQUISITION CORP., Plaintiffs, -against- TIME INCORPORATED, TW SUB INC., JAMES F. BERE, HENRY C. GOODRICH, CLIFFORD J. GRUM, MATINA S. HORNER, DAVID T. KEARNS, GERALD M. LEVIN, J. RICHARD MUNRO, N. J. NICHOLAS, JR., DONALD S. PERKINS, CLIFTON R. WHARTON, MICHAEL D. DINGMAN, EDWARD S. FINKELSTEIN, HENRY LUCE III, JASON D. McMANUS, JOHN R. OPEL and WARNER COMMUNICATIONS INC., Defendants.	C.A. No. 10866 AFFIDAVIT OF J. TOMILSON HILL

STATE OF NEW YORK)
) ss.:
COUNTY OF NEW YORK)

J. TOMILSON HILL, being duly sworn, states:

1. I am a Managing Director of Shearson Lehman Hutton Inc. ("Shearson Lehman"). As set forth below, Shearson Lehman has acted, with Wasserstein, Perella & Co., Inc. ("Wasserstein Perella"), as financial adviser to Time Inc. ("Time") in connection with the merger of a wholly-owned subsidiary of Time and Warner Communications, Inc.

("Warner") (the "Merger") pursuant to an Agreement and Plan of Merger dated as of March 3, 1989, as amended and restated as of May 19, 1989 (the "Merger Agreement", attached as Exhibit A), and in connection with an associated Share Exchange Agreement dated as of March 3, 1989, as amended as of April 12, 1989 (the "Share Exchange Agreement", attached as Exhibit B). I make this affidavit in response to Plaintiffs' Motion for a Temporary Restraining Order against the operation of the Share Exchange Agreement.

2. I received a B.A. from Harvard College in 1970 and an M.B.A. from Harvard Business School in 1973. After receiving my M.B.A., I joined The First Boston Corporation in investment banking. I left First Boston in 1979 to become Senior Vice President and Director of the Mergers and Acquisitions Department of Smith Barney, Harris Upham & Co., Inc. In 1982, I became a Managing Director of Lehman Brothers Kuhn Loeb, Inc. From 1985 to March 1988, I co-managed the Mergers and Acquisitions Department of Shearson Lehman, the successor firm of Lehman Brothers. From March 1988 to present, I have managed the Mergers and Acquisition Department at Shearson Lehman. In the 16 years that I have worked as an investment banker, I have participated in dozens of transactions involving mergers and

acquisitions, representing a variety of clients in both unsolicited and negotiated transactions.

3. The purpose of this affidavit is to provide an accurate description of the Merger and related Share Exchange Agreement. I have reviewed the Affidavit of Stephen M. Waters dated June 6, 1989 ("Waters Affidavit") and other papers submitted to the Court by plaintiffs Paramount Communications, Inc., and KDS Acquisition Corp. (collectively "Paramount") in support of their motion and believe that the description of these transactions which they contain are in many respects incorrect.

Background: The Structure of the Share Exchange Agreement

4. The Share Exchange Agreement provides that Time will issue to Warner 7,080,016 shares of its common stock, representing 11.1% of its voting power, and that Warner will issue to Time 17,292,747 shares of Warner's common stock, representing approximately 9.4% of its outstanding common stock and 8.7% of its voting power, in each case after giving effect to such issuance. As of March 3, 1989, the closing market price of Time stock was $109-1/8 per share, giving the Time shares to be issued under the Share Exchange Agreement an aggregate market value of approximately $773 million, and the closing market price

of Warner stock was $45-7/8 per share, giving the Warner shares an aggregate and approximately equal value of $793 million.

5. Although the exchange of shares was initially to take place following approval of the Merger by Time's Board on March 3, 1989, the SEC raised certain accounting issues with the parties in view of which the terms of the Share Exchange Agreement pertaining to share issuance were amended. As set forth in § 3 of the Share Exchange Agreement, the exchange of shares and closing thereunder will take place on the earlier of (a) February 28, 1990, when the Merger Agreement will terminate if not by then consummated, and (b) the fifth business day following the giving of written notice subsequent to a "trigger event" by either party of its election to cause the closing to occur; a "trigger event" is defined (in § 4.1(1) of the Merger Agreement) as either the acquisition by a third party of 10% or more, or the announcement by a third party of a tender or exchange offer which would lead to acquisition of 25% or more, of the voting power of either Time or Warner. As amended, the Share Exchange Agreement also provides that the exchange of shares will not take place if shares have not theretofore been exchanged and a majority of the shareholders of either Time or Warner do not approve the Merger

at the shareholders meetings scheduled to occur on June 23, 1989. (Share Exchange Agreement § 3)

6. The Share Exchange Agreement provides for "mirror voting" of the exchanged shares in most circumstances, i.e., the exchanged shares will be voted for and against all matters, including the Merger itself, in the same proportion as the issuing company's other shareholders vote on such matters. Prior to the termination of the Merger, the only matters as to which the holder of exchanged shares may vote other than in "mirror" fashion are those matters other than the Merger as to which a third party is soliciting proxies. (Share Exchange Agreement § 5)

7. The Share Exchange Agreement provides that, prior to the termination of the Merger Agreement, neither Warner nor Time may sell or otherwise dispose of the exchanged shares. It further provides that if the Merger Agreement is terminated, the issuer will have a right of first refusal as to a sale or other disposition of its shares held by the other party. Following termination of the Merger, the holder of exchanged shares will also have the right to register such shares in a public offering, subject to a right of first refusal of the issuer, and may tender such shares in any tender or exchange offer approved

by the issuer's Board. (Share Exchange Agreement §§ 8, 7(b), 7(c))

Purposes of the Share Exchange Agreement

8. The Share Exchange Agreement was designed to protect, and provide some assurance of the consummation of, the Merger that the Boards of Directors of both Time and Warner have approved. As well, the Share Exchange Agreement was designed to indicate both companies' resolve to consummate the Merger. It also serves as a means of enabling Time and Warner to invest in each other even if the Merger is not consummated. It also has the effect of providing a method to compensate either party for its efforts and expenses if the Merger should be disrupted by a hostile bid.

9. The Merger was considered and negotiated by Time and Warner over an extended period of time, and the Time Board expressed the view, based on independent financial advice, that the Merger was in Time's, and its shareholders', best interest. The Time Board was advised, however, that following announcement of the Merger one or more third parties might attempt to disrupt the transaction by commencing a tender offer or other attempt to acquire Time or Warner. Accordingly, the Share Exchange Agreement was designed to provide Time's and Warner's Boards with an

opportunity to protect their shareholders from potentially coercive acquisition proposals or other maneuvers that threaten to deprive those shareholders of the substantial benefits the Merger promises. However, even from a hostile bidder's point of view, the Share Exchange Agreement may provide a disincentive only in the sense that it increases the price by a small fraction of the total consideration involved.

10. As was stated in the Joint Proxy Statement of Time and Warner dated May 22, 1989 (Exhibit C) (at p. 69), the issuance of shares pursuant to the Share Exchange Agreement would have the effect of making an acquisition of either Time or Warner more costly by increasing the number of shares an acquirer would have to purchase. Paramount is wrong, however, in asserting that the effective cost of acquiring any exchanged shares of Time would be in excess of $1.25 billion, a number Paramount evidently derives by multiplying the number of Time shares that would be exchanged (7,080,016) times the purportedly offered price per share ($175). In asserting that this is the effective incremental cost of acquisition entailed by the Share Exchange Agreement, Paramount completely overlooks the fact that that Agreement requires an exchange of shares, and that if Paramount acquired Time following an exchange under the

Agreement, it would also acquire the 17,292,747 shares of Warner stock that Time would then hold pursuant to the Agreement.

11. The exchanged block of Warner stock that Time would hold would have very substantial value. Any acquirer of Time would take such value into account in determining the net incremental cost of acquiring Time entailed by the Share Exchange Agreement, as would any entity financing such an acquisition. Indeed, such net incremental would be the only cost relevant to an acquirer or its financing institutions.

12. The net incremental cost of acquisition associated with the exchanged shares would represent a finite, quantifiable and fractional increase in the cost of acquiring Time. For example, under Paramount's purported offer, Paramount would pay approximately $1.239 billion more to acquire all of Time's equity (7,080,016 Time shares at $175 per share) if the exchange shares were issued and had to be acquired, but in so doing it would also acquire 17,292,747 Warner shares having an aggregate market value (based on Warner's closing price on June 8, 1989, of $56.50 per share and absent any additional increment representing an acquisition premium) of approximately $977 million. The net incremental cost of acquisition to Paramount would,

therefore, be no more than approximately $262 million ($1.239 billion less $977 million). Moreover, given the substantial delays that will confront Paramount's purported offer (e.g., for obtaining FCC approval and for obtaining approval for transfers of cable franchises from a substantial number of franchising authorities), the net incremental cost is actually much less than $262 million. Assuming even just a 3 month delay and a 10% discount rate on the $1.239 billion cost of acquiring the exchanged Time shares, the true effective cost to Paramount would be approximately $231 million ($262 million less interest on $1.239 billion at 10% for 3 months). Assuming a six-month delay and a 10% discount rate, the true effective cost would be approximately $200,000,000 ($262 million less interest on $1.239 billion at 10% for six months). Delay for a period as long as a year would reduce the net incremental cost to approximately $138,000,000.

13. This range of incremental costs is a small fraction of the total cost of acquiring Time under the terms purportedly offered by Paramount. Paramount purportedly seeks to acquire all the 56,977,150 outstanding shares of Time at a price of $175 per share, for a total stock acquisition cost of nearly $10 billion; with refinancing of debt, the total acquisition cost will substantially exceed

$10 billion. Even if the net incremental cost of acquiring Time shares issued pursuant to the Exchange Agreement is not adjusted for delay, it would amount to approximately 2% of the total acquisition cost. When properly adjusted for delay, it is an even smaller percentage of the total acquisition cost.

14. In my judgment, this slight increment in the cost of acquiring Time (as computed on the basis set forth above) would constitute only a modest disincentive to an acquisition of Time, and would not constitute a major obstacle to a well-financed acquirer having serious intentions.

15. In addition to its protective purpose, the Share Exchange Agreement serves the additional purpose of enabling Time and Warner to make investments in each other even if the Merger is not consummated. The Share Exchange Agreement provides a means of carrying out that objective.

16. The Share Exchange Agreement also has the effect of providing compensation to one of the parties to that Agreement if the other party is the subject of a hostile bid and the Merger Agreement is terminated. That is not uncommon in mergers and acquisitions transactions.

The Proposed Merger is Not a "Sale" of Time or a Change in "Control" of Time

17. Pursuant to the contemplated Merger, Warner will be merged into a wholly-owned subsidiary of Time, with Warner surviving and, thereby, becoming itself a Time subsidiary, as are Time's other operating units. Mr. Waters asserts, in his affidavit, that the Merger constitutes a "sale" of "control" of Time at what amounts to a discount price. (See Waters Affidavit ¶¶ 4-7) These assertions are incorrect.

18. The Merger is not a "sale" of Time. A sale, by definition, involves at least the receipt of consideration by the seller in exchange for diminution of equity interest. In the case of a cash transaction, a sale involves the termination of an ownership interest. In the case of a securities transaction, at a minimum, shareholders will exchange their shares for something else. In the case of the Merger, Time shareholders do not exchange their shares, but remain shareholders in a substantially enlarged entity. From an investment banking perspective, the pro forma ownership of Time shareholders in the combined company is not a measure of whether a sale has occurred. Time's shareholders will maintain their ownership interest and their shares, and they do not receive any form of compensation in exchange for their shares. Instead,

additional shares of Time Warner are being issued and distributed to Warner shareholders.

19. Moreover, the Merger does not involve a transfer of "control" of Time. The fact that former Warner shareholders will hold in excess of 50 percent of the outstanding shares of Time Warner--the new entity--does not mean that a change in control of Time will have occurred. Issuance of stock to a widely disparate group of shareholders that are in no sense acting in concert cannot, as a business matter, be understood as a shift of control. In this respect, the stock issuance pursuant to the Merger is analogous to a public offering of Time shares to a large group of investors; unless some group acting in concert acquired those shares, no one would argue that such an offering constitutes a "sale" of "control".

20. Mr. Waters' assertion that the .465 exchange ratio will somehow injure Time's shareholders has no basis. The premium associated with the exchange ratio was a necessary inducement to Warner to cause it to enter into the transaction. The exchange ratio was duly approved by Time's Board, which was advised as to financial matters by Shearson Lehman and Wasserstein Perella. Mr. Waters' assertion that the exchange ratio causes Time shareholders to transfer control of their company at a discount is premised on the

notion that the issuance of Time Warner shares in exchange for Warner shares constitutes a "sale" of "control" of Time. As discussed above, that notion is incorrect.

J. Tomilson Hill

J. Tomilson Hill

Sworn to before me this

9 day of June 1989

Thomas Lalor

Notary Public

THOMAS LALOR
Notary Public, State of New York
No. 4991670 Qualified in Richmond County
Certificate filed in New York County
Commission Expires September 30, 1990