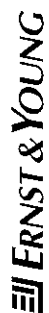


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Turner Broadcasting System Europe Limited

Report and Financial Statements

31 December 2005

 ERNST & YOUNG



Turner Broadcasting System Europe Limited

Registered No. 1927955

Directors

I Fitje
J Kupsky
N Richards
Z Ratajova
L Sams

Secretary

C Groves (Appointed 15 October 2005)
Gray's Inn Secretaries Limited (Resigned 15 October 2005)

Auditors

Ernst & Young LLP
1 More London Place
London SE1 2AF

Bankers

Barclays Bank PLC
PO Box 544
1st Floor
54 Lombard Street
London EC3V 9EX

Solicitors

C Groves
Turner House
16 Great Marlborough Street
London W1F 7HS

Registrars

C Groves
Turner House
16 Great Marlborough Street
London W1F 7HS

Registered Office

Turner House
16 Great Marlborough Street
London W1F 7HS

Directors' report

The directors present their report and the financial statements of the company for the year ended 31 December 2005.

Results and dividends

The company's profit for the year was US\$24,933,788 (2004 – US\$21,980,257). A dividend of US\$15,000,000 was paid in the year to Turner Broadcasting System Holdings (Europe) Limited (2004 – US\$nil).

The principal activities of the company are now:

- the licensing of the television networks of Turner Broadcasting System Inc., a 24 hour news program and Turner Entertainment Networks International Limited, a cartoon, entertainment and classic movie network;
- the provision of advertising representative services to group undertakings; and
- the provision of management services to group undertakings.

Directors and their interests

The directors who served during the year ended 31 December 2005 were as follows:

I Fitje
J Kupsky
Z Ratajova (Appointed 15 July 2005)
N Richards
L Sams

The directors do not have any interests, which are required to be disclosed under Schedule 7 of the Companies Act 1985.

Auditors

Ernst & Young LLP will be reappointed as the company's auditor in accordance with the elective resolution passed by the company under section 386 of the Companies Act 1985.

By order of the Board


Secretary

Date 29 March 2006

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Practice.

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report

to the members of Turner Broadcasting System Europe Limited

We have audited the company's financial statements for the year ended 31 December 2005 which comprise the Profit and Loss Account, the Balance Sheet and the Statement of Total Recognised Gains and Losses and the related notes 1 to 21. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of Directors' Responsibilities in relation to the financial statements.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Independent auditors' report

to the members of Turner Broadcasting System Europe Limited

Opinion

In our opinion the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered auditor
London
29 March 2006

Profit and loss account

for the year ended 31 December 2005

	Notes	2005 US\$	2004 US\$
Turnover	2	239,377,256	224,255,925
Cost of sales		(159,098,246)	(144,449,622)
Gross Profit		80,279,010	79,806,303
Administrative expenses		(46,691,164)	(50,376,142)
Operating Profit	3	33,587,846	29,430,161
Interest receivable	6	1,826,194	748,888
Interest payable	7	(4,629)	(16,499)
Profit on ordinary activities before taxation		35,409,411	30,162,550
Tax on profit on ordinary activities	8	(10,475,623)	(8,182,293)
Profit for the financial year		24,933,788	21,980,257
Dividend paid		(15,000,000)	-
Profit retained for the financial year	17	9,933,788	21,980,257

Statement of total recognised gains and losses

for the year ended 31 December 2005

	2005 US\$	2004 US\$
Retained profit for the financial year	9,933,788	21,980,257
Total recognised gains and losses relating to the year	<u>9,933,788</u>	<u>21,980,257</u>

Balance sheet

at 31 December 2005

	Notes	2005 US\$	2004 US\$
Fixed assets			
Tangible assets	9	21,667,577	15,917,066
Investments	10	9,135,105	9,135,105
		<u>30,802,682</u>	<u>25,052,171</u>
Current assets			
Debtors	11	109,563,253	124,216,328
Stock		213,034	162,198
Cash at bank and in hand		21,382,457	13,673,527
		<u>131,158,744</u>	<u>138,052,053</u>
Creditors: amounts falling due within one year	12	(83,997,073)	(88,542,258)
Net current assets		<u>47,161,671</u>	<u>49,509,795</u>
Total assets less current liabilities		<u>77,964,353</u>	<u>74,561,966</u>
Creditors: amounts falling due after more than one year	13	(1,821,424)	(2,102,823)
Provision for liabilities and charges	14	(3,393,729)	(9,643,731)
		<u>72,749,200</u>	<u>62,815,412</u>
Capital and reserves			
Called up share capital	16,17	148	148
Profit and loss account	17	72,749,052	62,815,264
Equity shareholders' funds	17	<u>72,749,200</u>	<u>62,815,412</u>

Zhangyu a
Director

29 March 2006
Date

Notes to the financial statements

at 31 December 2005

1. Accounting policies

Basis of preparation

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards. The financial statements are stated in US dollars.

Turnover

Turnover is primarily generated from the company's principal activities and represents the value of services provided during the year in the normal course of business net of value added tax. The unearned portion is recorded as deferred income. The company's activities are based primarily in the UK, Europe, Africa and the Middle East.

Depreciation

All tangible fixed assets are depreciated over their estimated useful economic life on a straight-line basis.

The annual rates of depreciation are:

Leasehold improvements	–	Over the life of the lease
Computer equipment	–	3 years
Fixtures, fittings and equipment	–	5 years
Motor Vehicles	–	5 years

Foreign currency translation

Transactions denominated in non-US dollar currencies are recorded in US dollars at actual exchange rates as at the date of the transaction. Monetary assets and liabilities denominated in currencies other than US dollars at the balance sheet date are reported at the rates of exchange prevailing at that date. Any gain or loss arising from a change in exchange rate is recorded in the profit and loss account.

Investments

Fixed asset investments are shown at historic cost.

An associated undertaking (associate) is an entity in which the company has a long-term equity interest and over which it exercises significant influence. Associated undertakings are accounted for by the cost method as per FRS9.

Pensions

The company's employees are eligible to join the group defined contribution scheme. Company contributions are charged to the profit and loss account as incurred.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed by the balance sheet date. Deferred tax assets are only recognised to the extent that they are considered recoverable against future taxable profits.

Deferred tax is measured at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse. Deferred tax balances are not discounted.

Operating leases

The company enters into operating leases. Rentals under operating leases are charged to the profit and loss account, as incurred, over the terms of the leases.

Notes to the financial statements

at 31 December 2005

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition on a first-in, first-out basis. Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

2. Turnover

The geographical source of the turnover of the company is as follows:

	2005	2004
	US\$	US\$
UK	64,304,664	63,912,179
Europe	136,490,228	123,225,378
Africa and Middle East	22,461,475	20,930,628
Rest of the world	16,120,889	16,187,740
	<u>239,377,256</u>	<u>224,255,925</u>

Turnover is all attributable to continuing activities.

3. Operating Profit

Operating profit on ordinary activities before taxation is stated after charging:

	2005	2004
	US\$	US\$
Depreciation of fixed assets	4,321,180	3,078,057
Foreign exchange loss	5,033,629	1,440,466
Operating lease rentals – Plant and Machinery	337,685	303,306
Operating lease rentals – Other	7,162,147	6,436,797
	<u>17,854,641</u>	<u>11,258,626</u>

Remuneration paid to the auditors during the year in respect of the audit of the UK group was US\$298,425 (2004 – US\$270,598). Remuneration for other services provided by the auditors totalled US\$nil (2004 – US\$1,027)

4. Directors' emoluments

Directors' emoluments (including pension contributions) were as follows:

	2005	2004
	US\$	US\$
Total emoluments:		
Salaries and benefits	1,262,531	1,112,466
Pensions	80,234	141,272
	<u>1,342,765</u>	<u>1,253,738</u>

The total emoluments of the highest paid director were US\$554,437 (2004 – US\$603,494) of which US\$38,274 (2004 – US\$77,412) related to pension contributions. During the year US\$nil (2004 –

Notes to the financial statements

at 31 December 2005

US\$nil) was paid to the directors in respect of a long term incentive plan, and the net value of assets received by directors in such schemes was US\$nil (2004 - US\$nil). Two directors were members of a money purchase pension scheme (2004 - two).

During the year, one director exercised share options (2004 - one).

5. Staff costs

Particulars of employee costs are shown below:

	2005	2004
	US\$	US\$
Wages and salaries	20,686,476	20,510,415
Social security costs	2,595,532	2,792,499
Other pension costs	795,537	764,289
	<u>24,077,545</u>	<u>24,067,203</u>

The average number of employees during the year was 207 (2004 - 190). All employees are primarily located in the United Kingdom.

6. Interest receivable

There has been interest receivable of US\$694,930 (2004 - US\$368,274) in respect of miscellaneous third party interest during the year. An additional US\$1,131,264 (2004 - US\$380,614) is receivable from a group undertaking.

7. Interest payable

There has been interest payable of US\$4,629 (2004 - US\$16,499) in respect of miscellaneous third party interest during the year.

8. Tax on profit on ordinary activities

	2005	2004
	US\$	US\$

a) The charge based on the results for the period is as follows:

Taxation based on the profit for the period

Corporation tax payable at:	30.00%	6,944,837	8,875,002
Double taxation relief		(5,707,837)	(5,247,002)
Group relief payments		1,523,000	-
(Over)/Under provision for prior years		(147,214)	578,291
Overseas tax suffered		5,707,837	5,247,002
Total current tax charge		<u>8,320,623</u>	<u>9,453,293</u>

Notes to the financial statements

at 31 December 2005

Deferred tax

Timing differences, origination and reversal	2,155,000	(1,271,000)
Total deferred tax	2,155,000	(1,271,000)
Total tax charge on profit on ordinary activities	10,475,623	8,182,293

8. Tax on profit on ordinary activities (cont)

b) Circumstances affecting current charge

The standard rate of current tax for the year based on the UK standard rate of corporation tax is 30% (2004 - 30%). The current tax charge for the year differs from the standard rate for the reasons in the reconciliation below.

	2005 US\$	2004 US\$
Profit on ordinary activities before tax	35,409,411	30,162,550
Tax on profit on ordinary activities at standard rate	10,622,823	9,048,765
Factors affecting charge: -		
Disallowable expenses	278,314	134,337
Capital allowances in excess of depreciation	(547,800)	(907,800)
Other timing differences	(1,885,500)	323,700
Loss on disposal of assets not allowable	-	276,000
Tax (over)/under provided in previous years	(147,214)	578,291
Total current tax (note (a))	8,320,623	9,453,293

Notes to the financial statements

at 31 December 2005

9. Tangible fixed assets

	<i>Motor Vehicles US\$</i>	<i>Leasehold improvement US\$</i>	<i>Computer equipment US\$</i>	<i>Fixtures fittings and equipment US\$</i>	<i>Total US\$</i>
Cost:					
At 31 December 2004	-	14,456,309	12,691,864	5,416,227	32,564,400
Additions	104,627	5,879,988	3,128,272	958,804	10,071,691
At 31 December 2005	104,627	20,336,297	15,820,136	6,375,031	42,636,091
Accumulated depreciation:					
At 31 December 2004	-	3,538,186	9,821,873	3,287,275	16,647,334
Provided during the year	19,182	1,858,575	1,840,809	602,614	4,321,180
At 31 December 2005	19,182	5,396,761	11,662,682	3,889,889	20,968,514
Net book value:					
At 31 December 2005	85,445	14,939,536	4,157,454	2,485,142	21,667,577
At 31 December 2004	-	10,918,123	2,869,991	2,128,952	15,917,066

Notes to the financial statements

at 31 December 2005

10. Investments

	<i>Investments in subsidiary undertaking US\$</i>	<i>Investments in associated undertaking US\$</i>	<i>Total US\$</i>
Cost:			
At 1 January 2004	3,101,786	-	3,101,786
Additions	-	6,033,319	6,033,319
At 31 December 2004	<u>3,101,786</u>	<u>6,033,319</u>	<u>9,135,105</u>
Cost:			
At 1 January 2005	3,101,786	6,033,319	9,135,105
At 31 December 2005	<u>3,101,786</u>	<u>6,033,319</u>	<u>9,135,105</u>

Subsidiary undertaking

Turner Broadcasting System Europe Limited holds 100% interest in the following incorporated companies, except where indicated.

<i>Company</i>	<i>Incorporated in</i>
Turner Broadcasting System Deutschland GmbH	Germany
Turner Broadcasting System Sweden AB	Sweden
Turner Broadcasting System France SAS	France
Turner Broadcasting System Espagna SA	Spain
Turner Broadcasting System Nederland BV	Netherlands
Turner Broadcasting System Denmark ApS	Denmark
Turner Broadcasting International Ltd	United Kingdom+
Turner Broadcasting System Italia SrL	Italy*

+ Holds 99% interest.

*100% owned by a subsidiary undertaking.

Group financial statements have not been prepared as the company has taken advantage of the dispensation available to wholly owned subsidiary undertakings where group financial statements have been prepared by a European Union parent undertaking (note 21).

Associated undertaking

The addition in 2004 represents a capital contribution in BOING SpA which operates an Italian television channel aimed at children.

Turner Broadcasting System Europe Limited holds the following interest in the incorporated company.

<i>Company</i>	<i>Incorporated in</i>
BOING SpA (49%)	Italy

Notes to the financial statements

at 31 December 2005

11. Debtors

	2005 US\$	2004 US\$
Trade debtors	45,965,803	49,818,988
Amounts owed by group undertakings	56,435,283	64,763,712
Other debtors	1,327,788	1,227,300
Prepayments	3,498,889	3,424,660
Corporation tax receivable	573,490	463,668
Deferred Tax	1,762,000	4,518,000
	<u>109,563,253</u>	<u>124,216,328</u>

There are no amounts receivable after more than one year included in amounts owed by group undertakings (2004 – US\$nil)

12. Creditors: amounts falling due within one year

	2005 US\$	2004 US\$
Trade creditors	4,345,280	3,695,856
Amounts owed to group undertakings	61,401,589	61,661,982
Other creditors including taxation and social security	9,073,904	12,290,914
Accruals and deferred income	6,838,309	7,700,455
Group relief payable	1,523,000	1,080,185
Corporation tax payable	814,991	2,112,866
	<u>83,997,073</u>	<u>88,542,258</u>

13. Creditors: amounts falling due after more than one year

Included in creditors amounts falling due greater than one year is US\$1,821,426 (2004 – US\$2,102,823) relating to a rent-free period. This is being released to the profit and loss account over the term of the lease.

Notes to the financial statements

at 31 December 2005

14. Provision for liabilities and charges

	<i>Joint venture liabilities US\$</i>	<i>Property US\$</i>	<i>Total US\$</i>
At 31 December 2004	875,000	8,768,731	9,643,731
Provided for during the year	(875,000)	(5,305,802)	(6,180,802)
Translation adjustment	-	(69,200)	(69,200)
At 31 December 2005	-	3,393,729	3,393,729

The joint venture liabilities provision was previously established for liabilities that may have arisen upon termination of various contracts. The time in which legal proceedings can be bought has now elapsed.

Included in the property amount is a provision for building dilapidations of US\$3,393,729 (2004 – US\$1,912,325).

15. Deferred taxation

	<i>2005 US\$</i>	<i>2004 US\$</i>
The deferred tax included in the balance sheet is as follows:		
Included in debtors	1,762,000	4,518,000
Accelerated capital allowances	654,000	1,524,000
Short term timing difference	1,108,000	2,994,000
Deferred tax asset	1,762,000	4,518,000

Analysis of movement in deferred tax asset

	<i>US\$</i>
At start of period	4,518,000
Credited to profit and loss account	(2,155,000)
Credited to foreign exchange	(601,000)
At end of period	1,762,000

The asset is not disclosed separately on the balance sheet. It appears in Note 11.

Notes to the financial statements

at 31 December 2005

16. Share capital

	2005 Number	2005 US\$	2004 Number	2004 US\$
Authorised:				
Ordinary shares of £1 each	100	148	100	148
Allotted, called up and fully paid:				
Ordinary shares of £1 each	100	148	100	148

17. Reconciliation of movements in shareholders' funds

	Share Capital US\$	Profit and Loss Account US\$	Total Share- holders funds US\$
At 1 January 2004	148	40,835,007	40,835,155
Profit for the year transferred to reserves	-	21,980,257	21,980,257
At 31 December 2004	148	62,815,264	62,815,412
Profit for the year transferred to reserves	-	9,933,788	9,933,788
At 31 December 2005	148	72,749,052	72,749,200

18. Operating lease commitments

The company was committed to making the following annual payments in respect of operating leases:

	Land and buildings US\$	Total 2005 US\$	Total 2004 US\$
Leases which expire: After 5 years	6,707,958	6,707,958	7,544,726

19. Statement of cash flows

A statement of cash flows has been omitted as the company has taken advantage of the dispensation available under FRS 1 (Revised) to wholly owned subsidiary undertakings where a consolidated statement of cash flows has been prepared by the ultimate UK parent undertaking (note 21).

20. Related party transactions

The company has taken advantage of the exemption available under FRS 8 not to disclose related party transactions with fellow subsidiary undertakings.

Notes to the financial statements

at 31 December 2005

21. Ultimate parent undertaking

The company's ultimate parent undertaking is Time Warner Inc., which is incorporated in the United States of America. Copies of its group financial statements, which include the company, are available from One Time Warner Center, New York, NY 10019.

Time Warner Holdings Limited is the parent undertaking of the smallest group of undertakings of which the company is a member and for which group financial statements are drawn up. Time Warner Holdings Limited is registered in England and Wales and copies of its financial statements may be obtained from the Registrar of Companies in Cardiff.

The company's immediate parent undertaking is Turner Broadcasting System Holdings (Europe) Limited, a company incorporated in England and Wales.