

Turner Broadcasting System Europe Limited

Report and Financial Statements

31 December 2004

ERNST & YOUNG



Directors

I Fitje
J Kupsky
N Richards
L Sams

Secretary

Gray's Inn Secretaries Limited

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

Denton Wilde Sapte
Five Chancery Lane
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Registrars

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Registered Office

Turner House
16 Great Marlborough Street
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Directors' report

The directors present their report and the financial statements of the company for the year ended 31 December 2004.

Results and dividends

The company's profit for the year was US\$21,980,257 (2003 – US\$16,638,660). The directors do not recommend the payment of a dividend (2003 – 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 2004 were as follows:

I Fitje
J Kupsky
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
For and on behalf of
Gray's Inn, a company limited


Director/Authorised signatory

Secretary

Date 31. March 2005

Statement of directors' responsibilities in respect of the financial statements

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 those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements 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; and
- 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 which disclose with reasonable accuracy at any time the financial position of the company and to 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 2004 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet, and the related notes 1 to 21. These financial statements have been prepared on the basis of 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

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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 transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards 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 judgements 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.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 December 2004 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

31 March 2005

Profit and loss account

for the year ended 31 December 2004

| | Notes | 2004 US\$ | 2003 US\$ |
|--|-------|---------------|---------------|
| Turnover | 2 | 224,255,925 | 185,452,375 |
| Cost of sales | | (144,449,622) | (117,916,980) |
| Gross Profit | | 79,806,303 | 67,535,395 |
| Administrative expenses | | (50,376,142) | (43,469,528) |
| Operating Profit | 3 | 29,430,161 | 24,065,867 |
| Interest receivable | 6 | 748,888 | 981,826 |
| Interest payable | 7 | (16,499) | (217,126) |
| Profit on ordinary activities before taxation | | 30,162,550 | 24,830,567 |
| Tax on profit on ordinary activities | 8 | (8,182,293) | (8,191,907) |
| Profit for the financial year | 17 | 21,980,257 | 16,638,660 |
| Profit retained for the financial year | 17 | 21,980,257 | 16,638,660 |

Statement of total recognised gains and losses

for the year ended 31 December 2004

| | <i>2004</i> | <i>2003</i> |
|--|-------------------|-------------------|
| | <i>US\$</i> | <i>US\$</i> |
| Profit for the financial year | 21,980,257 | 16,638,660 |
| Total recognised gains and losses relating to the year | <u>21,980,257</u> | <u>16,638,660</u> |

Balance sheet

at 31 December 2004

| | Notes | 2004 US\$ | 2003 US\$ |
|--|-------|--------------------|--------------------|
| Fixed assets | | | |
| Tangible assets | 9 | 15,917,066 | 10,307,772 |
| Investments | 10 | 9,135,105 | 3,101,786 |
| | | <u>25,052,171</u> | <u>13,409,558</u> |
| Current assets | | | |
| Debtors | 11 | 124,216,328 | 103,726,106 |
| Stock | | 162,198 | 198,299 |
| Cash at bank and in hand | | 13,673,527 | 12,188,222 |
| | | <u>138,052,053</u> | <u>116,112,627</u> |
| Creditors: amounts falling due within one year | 12 | (88,542,258) | (77,617,234) |
| Net current assets | | <u>49,509,795</u> | <u>38,495,393</u> |
| Total assets less current liabilities | | <u>74,561,966</u> | <u>51,904,951</u> |
| Creditors: amounts falling due after more than one year | 13 | (2,102,823) | (2,428,407) |
| Provision for liabilities and charges | 14 | (9,643,731) | (8,641,389) |
| | | <u>62,815,412</u> | <u>40,835,155</u> |
| Capital and reserves | | | |
| Called up share capital | 16,17 | 148 | 148 |
| Profit and loss account | 17 | 62,815,264 | 40,835,007 |
| Equity shareholders' funds | 17 | <u>62,815,412</u> | <u>40,835,155</u> |

Director

Jørn Ringe

Date

31 March, 2005

Notes to the financial statements

at 31 December 2004

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 |
| Office equipment | – | 5 years |
| Furniture and fittings | – | 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.

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.

Notes to the financial statements

at 31 December 2004

2. Turnover

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

| | 2004 | 2003 |
|------------------------|--------------------|--------------------|
| | US\$ | US\$ |
| UK | 63,912,179 | 47,096,756 |
| Europe | 123,225,378 | 99,186,710 |
| Africa and Middle East | 20,930,628 | 20,515,948 |
| Rest of the world | 16,187,740 | 18,652,961 |
| | <u>224,255,925</u> | <u>185,452,375</u> |

Turnover is all attributable to continuing activities.

3. Operating Profit

Operating profit on ordinary activities before taxation is stated after charging/(crediting):

| | 2004 | 2003 |
|------------------------------|-------------------|------------------|
| | US\$ | US\$ |
| Depreciation of fixed assets | 3,078,057 | 2,360,013 |
| Foreign exchange loss | 1,440,466 | 196,870 |
| Operating lease rentals | 6,740,103 | 5,980,655 |
| | <u>11,258,626</u> | <u>8,537,538</u> |

Remuneration paid to the auditors during the year in respect of the audit of the UK group was US\$270,598 (2003 – US\$230,234). Remuneration for other services provided by the auditors totalled US\$1,027 (2003 – US\$20,647)

4. Directors' emoluments

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

| | 2004 | 2003 |
|-----------------------|------------------|------------------|
| | US\$ | US\$ |
| Total emoluments: | | |
| Salaries and benefits | 1,112,466 | 1,625,038 |
| Pensions | 141,272 | 72,425 |
| | <u>1,253,738</u> | <u>1,697,463</u> |

The total emoluments of the highest paid director were US\$603,494 (2003 – US\$812,483) of which US\$77,412 (2003 – US\$20,990) related to pension contributions. During the year US\$nil (2003 – 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 (2003 – \$nil). Two directors were members of a money purchase pension scheme (2003 – three).

During the year, one director exercised share options (2003 – none).

Notes to the financial statements

at 31 December 2004

5. Staff costs

Particulars of employee costs are shown below:

| | 2004 | 2003 |
|-----------------------|-------------------|-------------------|
| | US\$ | US\$ |
| Wages and salaries | 20,510,415 | 18,982,045 |
| Social security costs | 2,792,499 | 2,041,177 |
| Other pension costs | 764,289 | 734,026 |
| | <u>24,067,203</u> | <u>21,757,248</u> |

The average number of employees during the year was 190 (2003 – 207). All employees are primarily located in the United Kingdom.

6. Interest receivable

There has been interest receivable of US\$368,274 (2003 – US\$483,033) in respect of miscellaneous third party interest during the year. An additional US\$380,614 (2003 – US\$498,793) is receivable from a group undertaking.

7. Interest payable

There has been interest payable of US\$ nil (2003 – US\$118,907) in respect of an intercompany loan from Time Warner Finance Limited. This loan was repaid in 2003. There has been interest payable of US\$16,499 (2003 – US\$98,219) in respect of miscellaneous third party interest during the year.

8. Tax on profit on ordinary activities

| | 2004 | 2003 |
|--|------|------|
| | 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% | 8,875,002 | 7,388,179 |
| Double taxation relief | | (5,247,002) | (3,191,945) |
| Under provision for prior years | | 578,291 | 211,728 |
| Overseas tax suffered | | 5,247,002 | 3,191,945 |
| Total current tax charge | | <u>9,453,293</u> | <u>7,599,907</u> |

Deferred tax

| | | |
|---|--------------------|------------------|
| Timing differences, origination and reversal | (1,271,000) | 592,000 |
| Total deferred tax | <u>(1,271,000)</u> | <u>592,000</u> |
| Total tax charge on profit on ordinary activities | <u>8,182,293</u> | <u>8,191,907</u> |

Notes to the financial statements

at 31 December 2004

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% (2003 - 30%). The current tax charge for the year differs from the standard rate for the reasons in the reconciliation below.

| | 2004 US\$ | 2003 US\$ |
|---|--------------|--------------|
| Profit on ordinary activities before tax | 30,162,550 | 24,830,567 |
| Tax on profit on ordinary activities at standard rate | 9,048,765 | 7,449,170 |
| Factors affecting charge: - | | |
| Disallowable expenses | 134,337 | 158,009 |
| Capital allowances in excess of depreciation | (907,800) | (38,100) |
| Other timing differences | 323,700 | (434,700) |
| Loss on disposal of assets not allowable | 276,000 | 253,800 |
| Tax underprovided in previous years | 578,291 | 211,728 |
| Total current tax (note (a)) | 9,453,293 | 7,599,907 |

9. Tangible fixed assets

| | Leasehold improvement US\$ | Computer equipment US\$ | Office equipment US\$ | Furniture and fittings US\$ | Total US\$ |
|---------------------------|----------------------------------|-------------------------------|-----------------------------|--------------------------------------|---------------|
| Cost: | | | | | |
| At 31 December 2003 | 10,061,174 | 10,335,753 | 823,993 | 3,261,800 | 24,482,720 |
| Additions | 5,647,552 | 2,356,111 | 401,772 | 1,202,428 | 9,607,863 |
| Disposals | (1,252,417) | - | - | (273,766) | (1,526,183) |
| At 31 December 2004 | 14,456,309 | 12,691,864 | 1,225,765 | 4,190,462 | 32,564,400 |
| Accumulated depreciation: | | | | | |
| At 31 December 2003 | 2,729,610 | 8,374,178 | 598,871 | 2,472,289 | 14,174,948 |
| Provided during the year | 1,197,383 | 1,447,695 | 112,730 | 320,249 | 3,078,057 |
| Disposals | (388,807) | - | - | (216,864) | (605,671) |
| At 31 December 2004 | 3,538,186 | 9,821,873 | 711,601 | 2,575,674 | 16,647,334 |
| Net book value: | | | | | |
| At 31 December 2004 | 10,918,123 | 2,869,991 | 514,164 | 1,614,788 | 15,917,066 |
| At 31 December 2003 | 7,331,564 | 1,961,575 | 225,122 | 789,511 | 10,307,772 |

Notes to the financial statements

at 31 December 2004

10. Investments

| | <i>Investments in subsidiary undertaking US\$</i> | <i>Investments in associated undertaking US\$</i> | <i>Total US\$</i> |
|---------------------|---|---|-----------------------|
| Cost: | | | |
| At 1 January 2003 | 1,308,791 | - | 1,308,791 |
| Additions | 1,792,995 | - | 1,792,995 |
| At 31 December 2003 | <u>3,101,786</u> | <u>-</u> | <u>3,101,786</u> |
| 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> |

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 an EC parent undertaking (note 20).

Associated undertaking

The addition 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 2004

11. Debtors

| | 2004 | 2003 |
|------------------------------------|--------------------|--------------------|
| | US\$ | US\$ |
| Trade debtors | 49,818,988 | 44,304,516 |
| Amounts owed by group undertakings | 64,763,712 | 53,214,416 |
| Other debtors | 1,227,300 | 589,479 |
| Prepayments | 3,424,660 | 3,236,695 |
| Corporation tax receivable | 463,668 | - |
| Deferred Tax | 4,518,000 | 2,381,000 |
| | <u>124,216,328</u> | <u>103,726,106</u> |

There are no amounts receivable after more than one year included in amounts owed by group undertakings (2003 – US\$nil)

12. Creditors: amounts falling due within one year

| | 2004 | 2003 |
|--|-------------------|-------------------|
| | US\$ | US\$ |
| Trade creditors | 3,695,856 | 5,720,964 |
| Amounts owed to group undertakings | 61,661,982 | 52,208,663 |
| Other creditors including taxation and social security | 12,290,914 | 9,165,843 |
| Accruals and deferred income | 7,700,455 | 7,490,219 |
| Group relief payable | 1,080,185 | 1,046,624 |
| Corporation tax payable | 2,112,866 | 1,984,921 |
| | <u>88,542,258</u> | <u>77,617,234</u> |

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

Included in creditors amounts falling due greater than one year is US\$2,102,823 (2003 – US\$2,428,407) 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 2004

14. Provision for liabilities and charges

| | <i>Joint venture liabilities US\$</i> | <i>Property US\$</i> | <i>Total US\$</i> |
|------------------------------|---|--------------------------|-----------------------|
| At 31 December 2003 | 875,000 | 7,766,389 | 8,641,389 |
| Provided for during the year | - | 512,321 | 512,321 |
| Translation adjustment | - | 490,021 | 490,021 |
| At 31 December 2004 | 875,000 | 8,768,731 | 9,643,731 |

The joint venture liabilities provision has been established for liabilities that may arise upon termination of various contracts in the next year.

The property provision has been established for an onerous lease held by the company. The provision is expected to be utilised over the next three years.

Included in the property amount is a provision for building dilapidations of US\$1,912,325 (2003 – US\$1,400,004).

15. Deferred taxation

| | <i>2004 US\$</i> | <i>2003 US\$</i> |
|---|----------------------|----------------------|
| The deferred tax included in the balance sheet is as follows: | | |
| Included in debtors | 2,524,000 | 2,381,000 |
| Accelerated capital allowances | 1,524,000 | 164,000 |
| Short term timing difference | 2,994,000 | 2,217,000 |
| Deferred tax asset | 4,518,000 | 2,381,000 |

Analysis of movement in deferred tax asset

| | <i>US\$</i> |
|-------------------------------------|-------------|
| At start of period | 2,381,000 |
| Credited to profit and loss account | 1,271,000 |
| Credited to foreign exchange | 866,000 |
| At end of period | 4,518,000 |

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

Notes to the financial statements

at 31 December 2004

16. Share capital

| | <i>2004</i> <i>Number</i> | <i>2004</i> <i>US\$</i> | <i>2003</i> <i>Number</i> | <i>2003</i> <i>US\$</i> |
|-------------------------------------|------------------------------|----------------------------|------------------------------|----------------------------|
| 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

| | <i>Share Capital</i> <i>US\$</i> | <i>Profit and Loss Account</i> <i>US\$</i> | <i>Total Share- holders funds</i> <i>US\$</i> |
|---|---|---|--|
| At 1 January 2003 | 148 | 24,196,347 | 24,196,495 |
| Profit for the year transferred to reserves | - | 16,638,660 | 16,638,660 |
| At 31 December 2003 | 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 |

18. Operating lease commitments

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

| | <i>Land and buildings</i> <i>US\$</i> | <i>Total</i> <i>2004</i> <i>US\$</i> | <i>Total</i> <i>2003</i> <i>US\$</i> |
|---------------------------------------|--|--|--|
| Leases which expire: After 5 years | 7,544,726 | 7,544,726 | 6,287,040 |

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 20).

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 2004

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.