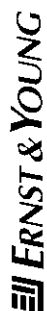


TURNER BROADCASTING SYSTEM EUROPE LIMITED

Report and Accounts

31 December 2000

 ERNST & YOUNG



Turner Broadcasting System Europe Limited

Registered No. 1927955

DIRECTORS

A Bird
I Fitje
N Richards
L Sams

SECRETARY

Gray's Inn Secretaries Limited

AUDITORS

Ernst & Young
Becket House
1 Lambeth Palace Road
London SE1 7EU

BANKERS

The Chase Manhattan Bank
PO Box 261
1 Chaseside
Bournemouth BH7 7DB

SOLICITORS

Denton Wilde Sapte
Five Chancery Lane
Clifford's Inn
London EC4 1BU

REGISTRARS

Denton Wilde Sapte
Five Chancery Lane
Clifford's Inn
London EC4 1BU

REGISTERED OFFICE

CNN House
19-22 Rathbone Place
London W1P 1DF

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STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE
ACCOUNTS

Company law requires the directors to prepare accounts 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 accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the accounts 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 accounts 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.

Turner Broadcasting System Europe Limited

PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2000

	Notes	2000 US\$	1999 US\$
TURNOVER			
Cost of sales	1, 2	143,545,718 (83,521,131)	86,259,598 (63,212,853)
GROSS PROFIT		60,024,587	23,046,745
Administrative expenses		(47,854,027)	(12,190,410)
Income from investments		817,977	-
OPERATING PROFIT		12,988,537	10,856,335
Interest receivable	6	4,095,041	5,809
Interest payable	7	(4,894,835)	(197,519)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	3	12,188,743	10,664,625
Tax on profit on ordinary activities	8	(3,309,290)	(3,374,049)
PROFIT FOR THE FINANCIAL YEAR AFTER TAXATION			
TRANSFERRED TO RESERVES	16	8,879,453	7,290,576

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

The company had no recognised gains or losses during the year other than those reflected in the profit and loss account.

Turner Broadcasting System Europe Limited

BALANCE SHEET

At 31 December 2000

	Notes	2000 US\$	1999 US\$
FIXED ASSETS			
Tangible assets	9	15,520,130	751,674
Investments	10	249,797	209,783
		<u>15,769,927</u>	<u>961,457</u>
CURRENT ASSETS			
Debtors	11	63,013,932	83,559,802
Stock		220,599	—
Cash at bank and in hand		2,781,674	—
		<u>66,016,205</u>	<u>83,559,802</u>
CREDITORS: amounts falling due within one year	12	(69,983,511)	(77,116,755)
NET CURRENT (LIABILITIES)/ASSETS		<u>(3,967,306)</u>	<u>6,443,047</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>11,802,621</u>	<u>7,404,504</u>
CREDITORS: amounts falling due after more than one year		(3,758,479)	—
PROVISION FOR LIABILITIES AND CHARGES	13	(875,000)	(875,000)
		<u>7,169,142</u>	<u>6,529,504</u>
CAPITAL AND RESERVES			
Called up share capital	15	148	148
Profit and loss account	16	7,168,994	6,529,356
EQUITY SHAREHOLDERS' FUNDS	16	<u>7,169,142</u>	<u>6,529,504</u>

ERNST & YOUNG

Director

Ivar Rije
20 April 2001

REPORT OF THE AUDITORS

to the members of Turner Broadcasting System Europe Limited

We have audited the accounts on pages 5 to 13, which have been prepared under the historical cost convention and on the basis of the accounting policies set out on page 7.

Respective responsibilities of directors and auditors

As described on page 3, the company's directors are responsible for the preparation of the accounts in accordance with applicable United Kingdom law and accounting standards. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you. Our responsibilities, as independent auditors, are established in the United Kingdom by Statute, the Auditing Practices Board and by our profession's ethical guidance.

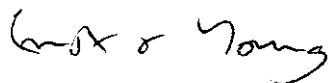
Basis of opinion

We conducted our audit in accordance with 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company as at 31 December 2000 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young
Registered Auditor
London

20 April 2001.

NOTES TO THE ACCOUNTS

At 31 December 2000

1. ACCOUNTING POLICIES

Accounting convention

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards. The accounts 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.

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 taxation is provided using the liability method on all timing differences which are expected to reverse in the future without being replaced, calculated at the rate at which it is anticipated the timing differences will reverse.

Deferred tax assets are only recognised if recovery without replacement by equivalent debit balances is reasonably certain.

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.

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 parent undertaking (note 19).

Turner Broadcasting System Europe Limited

NOTES TO THE ACCOUNTS

At 31 December 2000

2. TURNOVER

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

	2000 US\$	1999 US\$
UK	42,436,404	20,456,798
Europe	62,930,892	50,793,000
Africa and Middle East	16,546,360	15,009,800
Rest of the world	21,632,062	—
	<u>143,545,718</u>	<u>86,259,598</u>

Turnover is all attributable to continuing activities.

Following a reorganisation of the Turner Broadcasting System Europe Limited group, on 1 January 2000, the company acquired the trades of Turner International Advertising Sales Limited and Turner Broadcasting System Holdings (Europe) Limited.

3. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation is stated after charging:

	2000 US\$	1999 US\$
Depreciation of fixed assets	2,177,702	156,405
Foreign exchange loss	2,832,050	485,042
	<u>4,009,752</u>	<u>641,447</u>

Remuneration paid to the auditors during the year in respect of the audit of the UK group was US\$163,484. Remuneration for other services provided by the auditors totalled US\$15,918. During 1999, auditors' remuneration was borne by another group undertaking and disclosed in its accounts.

4. DIRECTORS' EMOLUMENTS

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

	2000 US\$	1999 US\$
Total emoluments:		
Salaries and benefits	3,059,005	967,928
Compensation for loss of office	—	486,846
Pensions	166,118	38,060
	<u>3,225,123</u>	<u>1,492,834</u>

The total emoluments of the highest paid director were US\$1,502,528 (1999 – US\$1,301,269). Five directors were members of a money purchase pension scheme.

During the year, two directors exercised share options.

Turner Broadcasting System Europe Limited

NOTES TO THE ACCOUNTS

At 31 December 2000

5. STAFF COSTS

Particulars of employee costs are shown below:

	2000 US\$	1999 US\$
Wages and salaries	14,669,553	2,522,412
Social security costs	2,077,003	376,551
Other pension costs	497,601	49,381
	<u>17,244,157</u>	<u>2,948,344</u>

The average number of employees during the year was 193 (1999 – 30). All employees are primarily located in the United Kingdom.

6. INTEREST RECEIVABLE

There has been interest receivable of US\$13,694 (1999 – US\$5,809) in respect of miscellaneous third party interest during the year. An additional US\$4,081,347 (1999 – US\$nil) is receivable from a group undertaking.

7. INTEREST PAYABLE

There has been interest payable of US\$4,599,684 (1999 – US\$197,519) in respect of an intercompany loan from Time Warner Finance Limited. An additional US\$295,151 (1999 – US\$nil) is payable in respect of miscellaneous third party interest during the year.

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2000 US\$	1999 US\$
Corporation tax payable at 30% (1999 – 30.33%)	2,000,000	862,049
Group relief payable	1,263,000	2,462,000
Overseas tax	2,156,290	862,049
Double taxation relief	(2,000,000)	(862,049)
Prior year adjustment	(110,000)	50,000
	<u>3,309,290</u>	<u>3,374,049</u>

If full provision had been made for deferred taxation for the year, the taxation charge would have been reduced by US\$12,000 (1999 – reduced by US\$114,000), as follows:

	2000 US\$	1999 US\$
Fixed asset timing differences	47,000	(17,000)
Other timing differences	(59,000)	(97,000)
	<u>(12,000)</u>	<u>(114,000)</u>

Turner Broadcasting System Europe Limited

NOTES TO THE ACCOUNTS

At 31 December 2000

9. TANGIBLE FIXED ASSETS

	<i>Leasehold improvement</i>	<i>Computer equipment</i>	<i>Office equipment</i>	<i>Furniture and fittings</i>	<i>Total</i>
	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>
Cost:					
At 1 January 2000	1,220,395	133,357	292,420	–	1,646,172
Additions	7,743,442	1,600,020	12,551	991,815	10,347,828
Transfers from group undertakings	5,484,573	5,046,124	501,559	1,435,529	12,467,785
Transfers to group undertakings	–	(176,582)	–	(35,400)	(211,982)
At 31 December 2000	14,448,410	6,602,919	806,530	2,391,944	24,249,803
Accumulated depreciation:					
At 1 January 2000	699,450	37,125	157,923	–	894,498
Provided during the year	585,518	1,148,346	102,726	341,112	2,177,702
Transfers from group undertakings	1,018,474	3,508,186	413,134	895,430	5,835,224
Transfers to group undertakings	–	(164,806)	–	(12,945)	(177,751)
At 31 December 2000	2,303,442	4,528,851	673,783	1,223,597	8,729,673
Net book value:					
At 31 December 2000	12,144,968	2,074,068	132,747	1,168,347	15,520,130
At 1 January 2000	520,945	96,232	134,497	–	751,674

10. INVESTMENT

	<i>Investment in subsidiary undertaking</i>
	<i>US\$</i>
Cost:	
At 1 January 1999	148
Additions	209,635
At 31 December 1999	209,783
Additions	40,014
At 31 December 2000	249,797

The investment at the end of 1998 was entirely in Turner Broadcasting International Limited, a company incorporated in the United Kingdom and a wholly owned subsidiary undertaking of Turner Broadcasting System Europe Limited. During 1999 Turner Broadcasting International Limited, which had previously been dormant for some years, acquired a 100% interest in Turner Broadcasting System Italia Srl, a company incorporated in Italy.

Turner Broadcasting System Europe Limited

NOTES TO THE ACCOUNTS

At 31 December 2000

10. INVESTMENT (continued)

During 1999, Turner Broadcasting System Europe Limited acquired a 100% interest in newly incorporated companies as follows:

<i>Company</i>	<i>Incorporated in</i>
Turner Broadcasting System Deutschland GmbH	Germany
Turner Broadcasting System Nordic AB	Sweden
Turner Broadcasting System France SAS	France
Turner Broadcasting System Espagna SA	Spain

In 2000, Turner Broadcasting System Europe Limited acquired a 100% interest in the newly incorporated Turner Broadcasting System Nederland BV, a company incorporated in the Netherlands.

Group accounts have not been prepared as the company has taken advantage of the dispensation available to wholly owned subsidiary undertakings where group accounts have been prepared by an EC parent undertaking (note 19).

11. DEBTORS

	<i>2000</i>	<i>1999</i>
	<i>US\$</i>	<i>US\$</i>
Trade debtors	26,710,646	18,448,089
Amounts owed by group undertakings	33,821,272	64,866,854
Other debtors	71,616	—
Prepayments	2,410,398	244,859
	<u>63,013,932</u>	<u>83,559,802</u>

12. CREDITORS: amounts falling due within one year

	<i>2000</i>	<i>1999</i>
	<i>US\$</i>	<i>US\$</i>
Trade creditors	3,198,214	—
Amounts owed to group undertakings	56,103,068	68,061,786
Other creditors including taxation and social security	2,332,097	1,086,874
Accruals and deferred income	7,087,132	5,506,095
Group relief payable	1,263,000	2,462,000
	<u>69,983,511</u>	<u>77,116,755</u>

Included in 'Amounts owed to group undertakings' above is US\$14,053,717 (1999 – US\$66,600,000) owed to Time Warner Finance Limited, drawn down from a loan facility of US\$100,000,000 established 17 December 1999. Amounts payable under this facility are repayable upon 3 business days' notice from either party and must be repaid in full by November 2003.

Turner Broadcasting System Europe Limited

NOTES TO THE ACCOUNTS

At 31 December 2000

13. PROVISION FOR LIABILITIES AND CHARGES

	<i>Joint venture liabilities US\$</i>	<i>Total US\$</i>
At 1 January 2000	875,000	875,000
Net movement in the year	—	—
At 31 December 2000	<u>875,000</u>	<u>875,000</u>

A provision has been established for liabilities that may arise upon termination of various contracts in the next two years.

14. DEFERRED TAXATION

	<i>Provided</i>		<i>Not provided</i>	
	<i>2000</i>	<i>1999</i>	<i>2000</i>	<i>1999</i>
	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>
Fixed asset timing differences	—	—	(225,000)	(272,000)
Other timing differences	—	—	(344,000)	(285,000)
	<u>—</u>	<u>—</u>	<u>(569,000)</u>	<u>(557,000)</u>

15. SHARE CAPITAL

	<i>2000 Number</i>	<i>2000 US\$</i>	<i>1999 Number</i>	<i>1999 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

Turner Broadcasting System Europe Limited

NOTES TO THE ACCOUNTS

At 31 December 2000

16. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT IN RESERVES

	<i>Share capital US\$</i>	<i>Profit and loss account US\$</i>	<i>Total share- holders' funds US\$</i>
At 1 January 1999	148	(761,220)	(761,072)
Profit for the year transferred to reserves	–	7,290,576	7,290,576
At 31 December 1999	148	6,529,356	6,529,504
Profit for the year transferred to reserves	–	8,879,453	8,879,453
Dividend payable	–	(8,239,815)	(8,239,815)
At 31 December 2000	148	7,168,994	7,169,142

17. OPERATING LEASE COMMITMENTS

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

	<i>Land and buildings US\$</i>	<i>Total 2000 US\$</i>	<i>Total 1999 US\$</i>
Leases which expire: After 5 years	6,739,583	6,739,583	5,834,880

18. 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.

19. ULTIMATE PARENT UNDERTAKING

The company's ultimate parent undertaking is AOL Time Warner Inc. (formerly Time Warner Inc.), which is incorporated in the United States of America. Copies of its group accounts, which include the company, are available from 75 Rockefeller Plaza, New York, NY 10019.

The smallest group for which group accounts are prepared and of which this company is a member is Time Warner Limited. Copies of these accounts are available from the Registrar of Companies in Cardiff.

The company's immediate parent undertaking is Turner Broadcasting System Holdings (Europe) Limited.