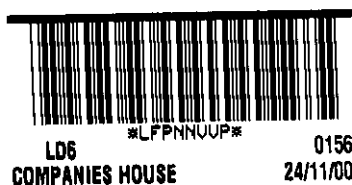


Report and Accounts

Turner Broadcasting System Europe Limited

*(formerly Turner Broadcasting
System Europe Distribution Limited)*

31 December 1999



 **ERNST & YOUNG**

Turner Broadcasting System Europe Limited
(formerly Turner Broadcasting System Europe Distribution Limited)

Registered No 1927955

DIRECTORS

A Bird
I Fitje
M Penny
R Parry
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

 **ERNST & YOUNG**

Turner Broadcasting System Europe Limited
(formerly Turner Broadcasting System Europe Distribution Limited)

DIRECTORS' REPORT

The directors present their report and the accounts of the company and not of the group for the year ended 31 December 1999.

RESULTS AND DIVIDENDS

The company's profit for the year was US\$7,290,576 (1998 - US\$4,745,088). The directors do not recommend the payment of a dividend (1998 - US\$nil).

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The principal activity of the company is the licensing of the networks of Turner Broadcasting System Inc., a 24 hours news program, and Turner Entertainment Networks International Limited, a cartoon and classic movie network.

CHANGE OF NAME

The company changed its name from Turner Broadcasting System Europe Distribution Limited to Turner Broadcasting System Europe Limited on 4 January 2000.

DIRECTORS AND THEIR INTERESTS

The directors who have served since 1 January 1999 were as follows:

P I Kent	(resigned 4 October 1999)
R Portugeis	(resigned 20 June 1999)
L Sams	
A Bird	(appointed 12 April 1999)
N Richards	(appointed 12 April 1999)
I Fitje	(appointed 4 October 1999)
R Parry	(appointed 4 November 1999)
M Penny	(appointed 9 November 1999)

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

FIXED ASSETS

Details of the movements in tangible fixed assets are given in note 9 to the accounts.

YEAR 2000 COMPLIANCE

The Time Warner Group considered the issues and business risks resulting from the date change to the Year 2000. Management reviewed the significant software and equipment used in the company's operations and, to the extent practicable, in the operations of its key business partners. From the review, certain measures designed to address the key risks were implemented with priority given to those systems which could cause significant financial or legal impact on the company's business if they were to fail.

The group has not experienced any problems or system failures with the roll over into the Year 2000. All systems to date have continued to perform normally. Given the complexity of the issue, it is not possible for any organisation to guarantee that no Year 2000 problems remain. However, the directors do not anticipate problems arising as the year progresses.

EVENTS SINCE THE BALANCE SHEET DATE

As of 1 January 2000, certain trading activities of Turner Broadcasting System Holdings (Europe) Limited (formerly Turner Broadcasting System Europe Limited) and Turner International Advertising Sales Limited were transferred to Turner Broadcasting System Europe Limited (formerly Turner Broadcasting System Europe Distribution Limited). This reorganisation of the Turner Broadcasting System Europe Group was effected to simplify the group structure.

Turner Broadcasting System Europe Limited
(formerly Turner Broadcasting System Europe Distribution Limited)

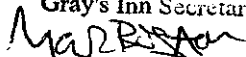
DIRECTORS' REPORT

AUDITORS

A resolution in accordance with Section 386 of the Companies Act 1985 to dispense with the obligation to appoint auditors annually was passed on 1 December 1994 and accordingly Ernst & Young shall be deemed reappointed as auditors.

By order of the board


For and on behalf of
Gray's Inn Secretaries Limited



Director/Authorised Signatory

Secretary

Date 18th October 2000

 ERNST & YOUNG

Turner Broadcasting System Europe Limited
(formerly Turner Broadcasting System Europe Distribution Limited)

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.

REPORT OF THE AUDITORS

to the members of Turner Broadcasting System Europe Limited (formerly Turner Broadcasting System Europe Distribution Limited)

We have audited the accounts on pages 6 to 14, which have been prepared under the historical cost convention and on the basis of the accounting policies set out on page 8

Respective responsibilities of directors and auditors

As described on page 4 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.

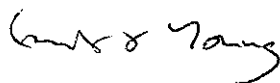
Basis of opinion

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 1999 and of its profit for the year then ended and have been properly prepared in accordance with the provisions of the Companies Act 1985 applicable to small companies.



Ernst & Young
Registered Auditor
London

18 October 2000

Turner Broadcasting System Europe Limited
(formerly Turner Broadcasting System Europe Distribution Limited)

PROFIT AND LOSS ACCOUNT
for the year ended 31 December 1999

	Notes	1999 US\$	1998 US\$
TURNOVER			
Cost of sales	1, 2	86,259,598 (63,212,853)	69,105,347 (51,829,010)
GROSS PROFIT		23,046,745	17,276,337
Administrative expenses		(12,190,410)	(11,767,922)
OPERATING PROFIT		10,856,335	5,508,415
Interest receivable	6	5,809	-
Interest payable	7	(197,519)	-
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	3	10,664,625	5,508,415
Tax on profit on ordinary activities	8	(3,374,049)	(763,327)
PROFIT FOR THE FINANCIAL YEAR AFTER TAXATION			
TRANSFERRED TO RESERVES	17	7,290,576	4,745,088

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
(formerly Turner Broadcasting System Europe Distribution Limited)

BALANCE SHEET
at 31 December 1999

	Notes	1999 US\$	1998 US\$
FIXED ASSETS			
Tangible assets	9	751,674	806,614
Investment	10	209,783	148
		<u>961,457</u>	<u>806,762</u>
CURRENT ASSETS			
Debtors	11	83,559,802	16,043,828
CREDITORS: amounts falling due within one year	12	(77,116,755)	(16,736,662)
NET CURRENT ASSETS/(LIABILITIES)		<u>6,443,047</u>	<u>(692,834)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>7,404,504</u>	<u>113,928</u>
PROVISION FOR LIABILITIES AND CHARGES	13	(875,000)	(875,000)
		<u>6,529,504</u>	<u>(761,072)</u>
CAPITAL AND RESERVES			
Called up share capital	15	148	148
Profit and loss account	16	6,529,356	(761,220)
EQUITY SHAREHOLDERS' FUNDS		<u>6,529,504</u>	<u>(761,072)</u>

ERNST & YOUNG

Date 18 October 2000 Director

For Rize

Turner Broadcasting System Europe Limited
(formerly Turner Broadcasting System Europe Distribution Limited)

NOTES TO THE ACCOUNTS
at 31 December 1999

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 activity 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

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.

Turner Broadcasting System Europe Limited
(formerly Turner Broadcasting System Europe Distribution Limited)

NOTES TO THE ACCOUNTS
at 31 December 1999

2. **TURNOVER**

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

	1999 US\$	1998 US\$
UK	20,456,798	14,952,675
Europe	50,793,000	40,081,644
Africa and Middle East	15,009,800	13,823,363
Rest of the world	—	247,665
	<u>86,259,598</u>	<u>69,105,347</u>

Turnover is all attributable to one continuing activity.

3. **PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION**

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

	1999 US\$	1998 US\$
Depreciation of fixed assets	156,405	171,440
Foreign exchange loss/(gain)	485,042	(221,607)
	<u>641,447</u>	<u>(50,167)</u>

Auditors' remuneration is borne by the UK parent undertaking, and allocated to the company as part of the management charge. The remuneration paid to the auditors during the year is disclosed in the accounts of the UK parent undertaking.

4. **DIRECTORS' EMOLUMENTS**

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

	1999 US\$	1998 US\$
Total emoluments:		
Salaries and benefits	967,928	668,136
Compensation for loss of office	486,846	—
Pensions	38,060	24,965
	<u>1,492,834</u>	<u>693,101</u>

The total emoluments of the highest paid director were US\$1,301,269 (1998 – US\$693,101). One director was a member of a money purchase pension scheme.

During the year, four directors exercised share options.

Turner Broadcasting System Europe Limited
(formerly Turner Broadcasting System Europe Distribution Limited)

NOTES TO THE ACCOUNTS
at 31 December 1999

5. STAFF COSTS

Particulars of employee costs are shown below:

	1999 US\$	1998 US\$
Wages and salaries	2,522,412	3,308,148
Social security costs	376,551	850,887
Other pension costs	49,381	66,316
	<u>2,948,344</u>	<u>4,225,351</u>

The average number of employees during the year was 30 (1998 – 40). All employees are primarily located in the United Kingdom.

6. INTEREST RECEIVABLE

There has been interest receivable of US\$5,809 (1998 – US\$nil) in respect of miscellaneous third party interest during the year.

7. INTEREST PAYABLE

There has been interest payable of US\$197,519 (1998 – US\$nil) in respect of an intercompany loan from Time Warner Finance Limited.

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

	1999 US\$	1998 US\$
Corporation tax payable at 30.33% (1998 – 31%)	862,049	994,000
Group relief payable	2,462,000	–
Overseas tax	862,049	813,327
Double taxation relief	(862,049)	(1,044,000)
Prior year adjustment	50,000	–
	<u>3,374,049</u>	<u>763,327</u>

If full provision had been made for deferred taxation for the year, the taxation charge would have been reduced by US\$114,000 (1998 – increased by US\$793,000), as follows:

	1999 US\$	1998 US\$
Fixed asset timing differences	(17,000)	71,000
Other timing differences	(97,000)	722,000
	<u>(114,000)</u>	<u>793,000</u>

Turner Broadcasting System Europe Limited
(formerly Turner Broadcasting System Europe Distribution Limited)

NOTES TO THE ACCOUNTS
at 31 December 1999

9. TANGIBLE FIXED ASSETS

	<i>Leasehold improvement US\$</i>	<i>Computer equipment US\$</i>	<i>Office equipment US\$</i>	<i>Total US\$</i>
Cost:				
At 1 January 1999	1,220,395	566,145	572,438	2,358,978
Additions	–	101,465	–	101,465
Retirement of assets	–	(534,253)	(280,018)	(814,271)
At 31 December 1999	1,220,395	133,357	292,420	1,646,172
Accumulated depreciation:				
At 1 January 1999	652,977	519,332	380,055	1,552,364
Provided during the year	46,473	52,046	57,886	156,405
Retirement of assets	–	(534,253)	(280,018)	(814,271)
At 31 December 1999	699,450	37,125	157,923	894,498
Net book value:				
At 31 December 1999	520,945	96,232	134,497	751,674
At 31 December 1998	567,418	46,813	192,383	806,614

10. INVESTMENT

	<i>Investment in subsidiary undertaking US\$</i>	<i>Other investment US\$</i>	<i>Total US\$</i>
Cost:			
At 1 January 1999	148	–	148
Additions	209,635	–	209,635
At 31 December 1999	209,783	–	209,783

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
(formerly Turner Broadcasting System Europe Distribution Limited)

NOTES TO THE ACCOUNTS

at 31 December 1999

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

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 20)

11. DEBTORS

	<i>1999</i>	<i>1998</i>
	<i>US\$</i>	<i>US\$</i>
Trade debtors	18,448,089	14,931,499
Amounts owed by group undertakings	64,866,854	885,297
Other debtors	—	26,204
Prepayments	244,859	200,828
	<u>83,559,802</u>	<u>16,043,828</u>

12. CREDITORS: amounts falling due within one year

	<i>1999</i>	<i>1998</i>
	<i>US\$</i>	<i>US\$</i>
Trade creditors	—	29,075
Amounts owed to group undertakings	68,061,786	10,698,450
Other creditors including taxation and social security	1,086,874	1,864,446
Accruals and deferred income	5,506,095	4,144,691
Group relief payable	2,462,000	—
	<u>77,116,755</u>	<u>16,736,662</u>

Included in 'Amounts owed to group undertakings' above is US\$66,600,000 (1998 – US\$nil) 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
(formerly Turner Broadcasting System Europe Distribution Limited)

NOTES TO THE ACCOUNTS
at 31 December 1999

13. PROVISION FOR LIABILITIES AND CHARGES

	<i>Joint venture liabilities US\$</i>	<i>Total US\$</i>
At 1 January 1999	875,000	875,000
Net movement in the year	-	-
At 31 December 1999	<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>1999 US\$</i>	<i>Provided 1998 US\$</i>	<i>Not provided 1999 US\$</i>	<i>1998 US\$</i>
Fixed asset timing differences	-	-	(272,000)	(255,000)
Other timing differences	-	-	(285,000)	(188,000)
	<u>-</u>	<u>-</u>	<u>(557,000)</u>	<u>(443,000)</u>

15. SHARE CAPITAL

	<i>1999 Number</i>	<i>1999 US\$</i>	<i>1998 Number</i>	<i>1998 US\$</i>
Authorised: Ordinary shares of £1 each	100	148	100	148
Allotted, called up and fully paid: Ordinary shares of £1 each	<u>100</u>	<u>148</u>	<u>100</u>	<u>148</u>

16. RESERVES

	<i>Profit and loss account US\$</i>	<i>Total US\$</i>
At 1 January 1999	(761,220)	(761,220)
Profit for the year transferred to reserves	7,290,576	7,290,576
At 31 December 1999	<u>6,529,356</u>	<u>6,529,356</u>

Turner Broadcasting System Europe Limited
(formerly Turner Broadcasting System Europe Distribution Limited)

NOTES TO THE ACCOUNTS

at 31 December 1999

17. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS/(DEFICIT) FOR THE YEAR ENDED 31 DECEMBER 1999

	1999	1998
	US\$	US\$
Shareholders' deficit at 1 January	(761,072)	(5,506,160)
Profit for the year	7,290,576	4,745,088
Shareholders' funds/(deficit) at 31 December	6,529,504	(761,072)

18. OPERATING LEASE COMMITMENTS

At 31 December 1999 the company was committed to making the following annual payments in respect of operating leases

	<i>Land and buildings</i>	<i>Total</i>	<i>Total</i>
	US\$	US\$	US\$
Leases which expire			
After 5 years	5,834,880	5,834,880	-

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 parent undertaking

20. 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 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 Europe Limited. On 4 January 2000 that company changed its name to Turner Broadcasting System Holdings (Europe) Limited

21. 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

22. EVENTS SINCE THE BALANCE SHEET DATE

As of 1 January 2000 certain trading activities of Turner Broadcasting System Holdings (Europe) Limited (formerly Turner Broadcasting System Europe Limited) and Turner International Advertising Sales Limited were transferred to Turner Broadcasting System Europe Limited (formerly Turner Broadcasting System Europe Distribution Limited). This reorganisation of the Turner Broadcasting System Europe Group was effected to simplify the group structure

On 4 January 2000 Turner Broadcasting System Europe Distribution Limited changed its name to Turner Broadcasting System Europe Limited