Netscape Communications Limited

Report and Financial Statements

31 December 2007

Registered No 03108828

Directors
R J Boe (resigned 15 February 2007)
S M Swad (resigned 2 April 2007)
R E Grant (appointed 15 February 2007, resigned 23 July 2007)
D R Watkinson (resigned 9 May 2008)
N Kumar (appointed 10 April 2007)
I H Parker (appointed 15 February 2007)

Secretary
A Wales (resigned 6 February 2008)
N Raj (appointed 6 February 2008)

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

Bankers
Barclays Bank Plc
P O Box 46116
London
EC4N 8WB

Registered Office
68 Hammersmith Road
London
W14 8YW

Directors' report

The directors present their report and financial statements for the year ended 31 December 2007

Results and dividends

The profit for the year, after taxation, amounted to £362,339 (2006 - £492,381)

The directors do not recommend the payment of a dividend (2007 – £nil)

Principal activity and review of business

The company's principal activities during the year continued to be the provision of administrative services to other group undertakings

The company's key financial and other performance indicators during the year are as follows

	2007 £	2006 £	Change %
Turnover	4,720,129	6,387,705	-26%
Operating profit	1,309	305,584	-100%
Profit after tax	362,339	492,381	-26%
Shareholders' funds	16,675,984	16,363,905	2%

The company earns management fee income from related parties The decrease in turnover for the 2007 financial year is attributable to the decrease in management fee income received

Principal risks and uncertainties

The principal risks and uncertainties facing the company are broadly grouped as legislative and liquidity risk

<u>Legislative Risks</u>

The company confirms to UK and EU compliance Compliance imposes costs and failure to comply with standards could materially affect the company's ability to operate

<u>Liquidity Risks</u>

The company's ultimate parent entity has established a risk and financial management framework whose primary objectives are to protect the company from events that hinder the achievement of the company's performance objectives The objectives aim to limit undue counterparty exposure, ensure sufficient working capital exists and monitor the management of risk at a business unit level

Future developments

The company continued its activities in 2007 However, the volume of its activities has diminished in 2008 and a potential liquidation of the company may be considered As no formal decision has been made yet in this respect, the directors of the company continue to consider it appropriate to use the going concern basis

Directors' report

Fixed assets

Details of the company's tangible fixed assets are shown in note 8 to the financial statements

Directors and their interests

The directors during the year ended 31 December 2007 are as listed on page 1

None of the directors had any interest in the share capital of the company during the year ended 31 December 2007

Directors qualifying third party indemnity provisions

During the course of the year, the directors and officers of the company had the benefit of Directors and Officers Insurance provided by Time Warner Inc for directors and officers of its subsidiaries

Statement as to disclosure of information to auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware Having made enquiries of fellow directors and the company's auditor, each director has taken all steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is unaware of that information

Auditors

Re-appointment of auditors

The company dispensed with the obligation to hold Annual General Meetings The reappointment of Ernst & Young LLP as auditor of the company will be proposed at the next general meeting of the company

On behalf of the Board

Director

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 laws and regulations

Company law requires the directors to prepare financial statements for each financial year Under the law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit and loss of the company for the period In preparing the financial statements, the directors are required to

- select suitable accounting policies and apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK 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 to enable them to ensure that the financial statements comply with the Companies Act 1985 They are responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention of fraud and other irregularities

Independent Auditors' report

to the shareholders of Netscape Communications Limited

We have audited the financial statements of Netscape Communications Limited for the year ended 31 December 2007 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, the Balance Sheets, and the related notes 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 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' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities

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 properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in Directors' Report is consistent with the financial statements

In addition we report to you if, in our opinion, 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 transaction 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 an 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 judgements made by the directors in 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 consider 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, in accordance with United Kingdom Generally Accepted Accounting Practice, the state of the company's affairs as at 31 December 2007 and of its profit for the year then ended,

Independent auditors' report

to the members of Netscape Communications Limited (continued)

- The financial statements have been properly prepared in accordance with the Companies Act 1985, and

- The information given in the Directors' Report is consistent with the financial statements

Ernst & Young LLP

Ernst & Young LLP

Registered Auditor

London

29 SEP 2008

Profit and loss account

for the year ended 31 December 2007

	Notes	*2007*	*2006*
		£	*£*
Turnover	2	4,720,129	6,387,705
Administrative expenses		(4,509,637)	(5,964,918)
Operating profit	3	210,492	422,787
Loss on disposal of fixed assets		(48,162)	(117,203)
Write-off of VAT receivable		(161,021)	-
Interest receivable and similar income	4	649,206	418,458
Profit on ordinary activities before taxation		650,515	724,042
Tax on profit on ordinary activities	7	(288,176)	(231,661)
Profit for the financial year	13	362,339	492,381

None of the company's activities were acquired or discontinued during the above two financial years

Statement of total recognised gains and losses

for the year ended 31 December 2007

	2007	*2006*
	£	*£*
Retained profit for the financial year	362,339	492,381
Total recognised gains and losses relating to the year	362,339	492,381

Balance sheet
as at 31 December 2007

	Notes	2007 £	2006 £
Fixed assets			
Tangible assets	8	1,882,450	3,650,370
Current assets			
Debtors	9	14,924,864	14,232,904
Cash at bank		1,685,891	279,314
		16,610,755	14,512,218
Creditors: amounts falling due within one year	10	(1,817,221)	(1,798,683)
Net current assets		14,793,534	12,713,535
Total assets less current liabilities		16,675,984	16,363,905
Net assets		16,675,984	16,363,905
Capital and reserves			
Called up share capital	12	100,000	100,000
Share premium	13	9,400,000	9,400,000
Capital reserve	13	6,375,934	6,375,934
Charge for share based payments		26,472	76,732
Profit and loss account	13	773,578	411,239
Equity shareholders' funds	13	16,675,984	16,363,905

The financial statements were approved by the Board of Directors on ____________
and signed by

Director

Notes to the financial statements

at 31 December 2007

1. Accounting policies

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable UK accounting standards The accounting policies adopted by the company are set out below and consistent with those of the previous financial year

Property, plant and machinery

Property, plant and machinery is stated at cost less accumulated depreciation Such costs include costs directly attributable to making the asset capable of operating as intended

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less residual value based on prices prevailing at the date of acquisition, of each asset evenly over its expected useful life as follows

Computer equipment	- 3 years
Office equipment	- 3 years
Network equipment	- 5 years or over remaining useful life on transfer

The carrying value of tangible fixed assets is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable

Deferred taxation

Deferred taxation is provided in full at current rates for tax deferred in respect of all material timing differences between the treatment of certain items for taxation and accounting purposes

Deferred tax assets are recognised to the extent that, on the basis of all available evidence, it is considered likely that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

The company has not adopted a policy of discounting deferred tax assets and liabilities

Foreign currencies

Transactions in foreign currencies are recorded at the rate prevailing at the date of the transaction Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date All exchange differences are included in the profit and loss account

Statement of cash flows

A statement of cash flows has not been prepared since the cash flows of the company are included within the consolidated statement of cash flows of the company's ultimate parent undertaking, Time Warner Inc This is in line with the exemptions authorised in FRS 1 (revised)

Pensions

The company operates a defined contribution pension scheme Contributions are charged in the profit and loss account as they become payable in accordance with the rules of the scheme

Operating leases

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term

Notes to the financial statements

at 31 December 2007

1. Accounting policies (continued)

Share based payments

The company accounts for share based payments in accordance with Financial Reporting Standard 20 – 'Share-based payment'

Certain employees of the company have been granted options to purchase shares in the company's ultimate parent, Time Warner Inc Such options have been granted with exercise prices equal to, or in excess of, the fair market value at the date of grant The options are denominated in US$ and vest evenly over a four year period and expire ten years from the date of grant For the purpose of applying FRS 20 the fair value of each option grant is estimated on the grant date using the Black-Scholes option pricing model

Certain employees have also been granted Time Warner restricted stock units The units are denominated in US$ and vest over a weighted-average period of two years

2. Turnover

Turnover, which is stated net of value added tax, represents the provision of administrative services for fellow group undertakings and group alliances All turnover arises from continuing activities in the United Kingdom

3. Operating profit

	2007	*2006*
	£	*£*
The operating profit is stated after charging		
Auditors' remuneration – audit services *	25,000	41,500
Depreciation of owned assets	1,796,163	2,140,510

* All amounts paid to the company's auditor for the current and previous financial year related to the audit of the company's statutory financial statements

4. Interest receivable and similar income

	2007	*2006*
	£	*£*
Bank interest receivable	664,156	419,865
Interest payable	(12,976)	-
Foreign exchange (loss)	(1,974)	(1,407)
	649,206	418,458

5. Directors' emoluments

There were no directors' emoluments during the year ended 31 December 2007 (2006 – £nil)

The directors receive their remuneration from AOL LLC/Time Warner Inc

Notes to the financial statements

at 31 December 2007

6. Staff costs

	2007	2006
	£	£
Wages and salaries	390,646	367,395
FRS 20 option expense	9,160	48,020
Social security costs	38,243	55,106
Other pension costs	240,394	21,610
	678,443	492,131

The average monthly number of employees during the year ended 31 December 2007 was 3 (2006 - 5)

7. Tax on profit on ordinary activities

	2007	2006
	£	£
The tax charge based on the profit for the year is as follows		
Current tax		
UK corporation tax payable at 30%	373,000	443,000
(Over)/Under provision for prior years	(65,824)	(10,339)
Total current tax	307,176	432,661
Deferred tax		
Timing differences, origination and reversal	(63,000)	(201,000)
(Decrease)/Increase in tax rates	44,000	-
Total deferred tax (see note 11)	(19,000)	(201,000)
Total tax on profit on ordinary activities	288,176	231,661

The standard rate of current tax for the year, based on the UK standard rate of corporation tax, is 30% (2006 - 30%) The current tax charge for the year differs from the standard rate for the reasons in the reconciliation below

	2007	2006
	£	£
Profit on ordinary activities before tax	650,515	724,042
Profit on ordinary activities at standard rate of corporation tax of 30% (2006– 30%)	195,155	217,213
Effect of		
Expenses not deductible for tax purposes	48,900	25,800
Capital allowances in excess of depreciation	146,400	207,900
Tax under/(over) provided in previous years	(65,824)	(10,339)
Other timing differences	(17,455)	(7,913)
Total current tax	307,176	432,661

Notes to the financial statements

at 31 December 2007

8. Tangible fixed assets

	Computer & networking equipment	*Total*
Cost	*£*	*£*
At 1 January 2007	10,675,680	10,675,680
Additions	237,141	237,141
Disposals	(348,513)	(348,513)
At 31 December 2007	10,564,308	10,564,308
Accumulated depreciation		
At 1 January 2007	7,025,310	7,025,310
Additions during the year	1,935,927	1,935,927
Disposals	(279,379)	(279,379)
At 31 December 2007	8,681,858	8,681,858
Net book value		
At 31 December 2007	1,882,450	1,882,450
At 1 January 2007	3,650,370	3,650,370

The depreciation provided in the year of £1,935,927 includes accumulated depreciation amount of £139,764 in respect of used equipment transferred into the company

9. Debtors

	2007	*2006*
	£	*£*
Loan from fellow subsidiary undertaking	12,364,643	10,305,935
Amount due from fellow subsidiary undertakings	1,450,350	2,572,032
Other debtors	270,294	307,964
Deferred taxation (see note 11)	620,000	601,000
Prepayments and accrued income	219,577	445,973
	14,924,864	14,232,904

10. Creditors: amounts falling due within one year

	£	*£*
Trade creditors	166,395	53,564
Amount due to fellow subsidiary undertakings	924,699	622,655
Corporation tax	195,106	391,955
Other creditors and deferred income	451,198	316,992
Accruals	79,823	413,517
	1,817,221	1,798,683

Notes to the financial statements

at 31 December 2007

10. Creditors: amounts falling due within one year (continued)

Amounts due to group companies are included under amounts falling due within one year where there are no specified terms as to their repayment and recoverability While amounts due to group companies are technically repayable on demand and hence are included in creditors falling due within one year, the directors are of the opinion that, in the ordinary course of business, repayment within such a time scale would not be required

11. Deferred taxation

	2007	*2006*
	£	£
The movement in the deferred taxation asset is as follows		
At 1 January 2007	601,000	400,000
Credit/(charge) for the year (see note 7)	19,000	201,000
At 31 December 2007	620,000	601,000

Deferred taxation provided in the accounts comprises

	£	£
Accelerated capital allowances	612,000	575,000
Pension costs	-	3,000
Stock options	8,000	23,000
	620,000	601,000

12. Share capital

	2007	*2006*
Authorised	£	£
100,000 Ordinary shares of £1 each	100,000	100,000
Allotted, called up and fully paid	£	£
100,000 Ordinary shares of £1 each	100,000	100,000

Notes to the financial statements

at 31 December 2007

13. Reconciliation of shareholders' funds and movement on reserves

	Share capital	*Share premium*	*Capital reserve*	*Equity share-based payments*	*Profit and loss account*	*Total equity share-holders' funds*
	£	*£*	*£*	*£*	*£*	*£*
At 1 January 2006	100,000	9,400,000	6,375,934	110,890	(81,142)	15,905,682
Charge for share-based payments	–	–	–	(34,158)	–	(34,158)
Profit for the year	–	–	–	–	492,381	492,381
At 1 January 2007	100,000	9,400,000	6,375,934	76,732	411,239	16,363,905
Charge for share-based payments	–	–	–	(50,260)	–	(50,260)
Profit for the year	–	–	–	–	362,339	362,339
At 31 December 2007	100,000	9,400,000	6,375,934	26,472	773,578	16,675,984

14. Financial commitments

a) Leases

At 31 December 2007, the company has annual commitments under non-cancellable operating leases relating to co-location of network equipment entered on the behalf of related parties as set out below

	2007	*Restated 2006*
Operating leases which expire	*£*	*£*
Within one year	554,158	1,184,148
Between two and five years	-	180,632
	554,158	1,364,780

On February 1, 2008, AOL, LLC, on behalf of Netscape Communications Ltd , entered into a six month agreement with Level 3 Communications, LLC for co-location space for £7,200 per month and power for £9,972 per month

b) Pensions

The company operates a money purchase pension scheme for its employees The assets of the scheme are held separately from those of the company in an independently administered fund The charge in respect of the scheme amounted to £240,394 (2006 – £21,610) for the year and included in accruals is £1,035 (2006 – £9,074) relating to outstanding contributions payable

Notes to the financial statements

at 31 December 2007

15. Related party transactions

The company is a wholly owned subsidiary of Netscape Communications Corporation and the results of the company are included in the consolidated financial statements of Time Warner Inc (see note 16) The company has therefore taken advantage of the exemption available under Financial Reporting Standard 8 not to disclose transactions with its parent and fellow subsidiary undertakings There were no other related party transactions which require disclosure

16. Ultimate parent undertaking

At 31 December 2007, Time Warner Inc , a company incorporated in the United States of America was the ultimate parent undertaking and the parent undertaking of both the smallest and the largest group of undertakings of which the company is a member and for which group financial statements are drawn up Copies of Time Warner Inc 's financial statements can be obtained from One Time Warner Centre, New York, NY 10019, USA

17. Share based payments

For purposes of applying FRS 20, the fair value of each option is estimated on the grant date using the Black-Scholes option pricing model For 2007 option grants, assumptions used in estimating the grant date fair value included a dividend yield of 1 1%, a risk-free interest rate of 4 4%, volatility of 22 3%, and an expected life of 5 35 years For 2006 option grants, assumptions used in estimating the grant date fair value included a dividend yield of 1 1%, a risk-free interest rate of 4 61%, volatility of 22 15%, and an expected term of 4 86 years Expected volatility has been calculated using implied volatilities from traded options as well as quotes from third party investment banks The weighted average fair values of options granted were $5 15 and $4 36 for 2007 and 2006, respectively

The total charge to the profit and loss account in respect of share-based payments included within wages and salaries (see Note 6) was £9,160 and £48,020 for the years ended 31 December 2007 and 2006, respectively

The number and weighted average exercise prices for options granted for Time Warner Inc shares, including grants of options prior to 7 November 2002, are as follows

	Number of Options 2007	Weighted Average Exercise Price US$	Number of Options 2006	Weighted Average Exercise Price US$
At 1 January	156,275	27 18	162,275	26 42
Granted	7,040	19 97	14,500	17 40
Exercised	(22,000)	15 68	(20,500)	14 27
Lapsed/forfeited	(16,194)	17 64	-	-
At 31 December	125,121	30 03	156,275	27 18
Exercisable at 31 December	108,356	31 81	109,837	31 69

Notes to the financial statements

at 31 December 2007

17. Share based payments (continued)

The weighted average share price for options exercised was $21 05 and $17 62 in 2007 and 2006, respectively Details of options outstanding at 31 December 2007 are as follows

Year of Grant	Number of Options	Weighted Average Exercise Price US$	Exercisable From	Exercisable To
2001	54,000	38 88	14/5/2002	1/10/2011
2002	49,700	25 96	15/2/2003	23/6/2012
2003	3,400	10 32	14/2/2004	13/2/2013
2004	2,481	17 28	13/2/2005	12/2/2014
2005	2,500	17 97	18/2/2006	17/2/2015
2006	6,000	17 40	3/3/2007	2/3/2016
2007	7,040	19 97	2/3/2008	1/3/2017

The number and weighted average grant date fair value for restricted stock units granted for Time Warner Inc shares are as follows

	Number of RSUs 2007	Weighted Average Grant Date Fair Value US$	Number of RSUs 2006	Weighted Average Grant Date Fair Value US$
At 1 January	-	-	-	-
Granted	2,303	19 97	-	-
At 31 December	2,303	19 97	-	-
Unvested at 31 December	2,303	19 97	-	-